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Fab Industries Trust – '10-K' for 11/27/04

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5/09/05	Fab Industries Trust	10-K	11/27/04	5:199K		Paul Weiss Ri...LLP 01/FA

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3: EX-31	Exhibit 31.2	2±	9K
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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended November 27, 2004

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission file number 1-5901

FAB INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

13-2581181
(I.R.S. Employer
Identification No.)

200 Madison Avenue, New York, NY
(Address of principal executive offices)

10016
(Zip Code)

Registrant's telephone number, including area code: 212-592-2700

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS -----	NAME OF EACH EXCHANGE ON WHICH REGISTERED -----
Common Stock, \$.20 par value	American Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: Share Purchase Rights

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes ☐

No ☒

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of The Act)

Yes ☐

No ☒

The aggregate market value at May 31, 2004 of shares of the registrant's Common Stock, \$.20 par value (based upon the closing price per share of such stock on the Composite Tape for issues listed on the American Stock Exchange), held by non-affiliates of the registrant was approximately \$12,400,000. Solely for the purposes of this calculation, shares held by directors and executive officers of the registrant and members of their respective immediate families sharing the same household have been excluded. Such exclusion should not be deemed a determination or an admission by the registrant that such individuals are, in fact, affiliates of the registrant.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date: At May 4, 2005 there were outstanding 5,215,031 shares of Common Stock, \$.20 par value.

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FAB INDUSTRIES, INC.

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PART I

ITEM 1. BUSINESS

Fab Industries, Inc. was incorporated on April 21, 1966, under the laws of the State of Delaware and is a successor by merger to previously existing businesses. References in this Annual Report to "Fab" or "us" or "our" or "the Company" mean Fab Industries, Inc. and its subsidiaries on a consolidated basis, unless the context otherwise requires. We are a manufacturer of warp and circular knit fabrics, raschel laces, and laminated fabrics. We also produce comforters, sheets, blankets and other bedding products.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002.

The Company engaged the investment banking firm of McFarland Dewey & Co., LLC in November 2002 to assist it with the sale of the Company's business. McFarland Dewey contacted over 80 potential acquirers during the course of this eighteen-month process. On October 14, 2003, the Company announced that it had yet to receive any bona-fide offers to acquire the business as a going concern. Following that announcement, on October 23, 2003, the Company received a preliminary offer from a management-led buyout group to acquire the business, as a going concern, for \$3.75 per share. The Company subsequently announced on November 14, 2003, that a stockholder filed a lawsuit, naming as defendants, the Company and each of its directors, seeking class-action certification, preliminary and permanent injunctions against the proposed management-led buyout, and unspecified damages. The preliminary offer from the management-led buyout group was subsequently withdrawn.

The Company continued the auction process following the withdrawal of the management-led buyout group's preliminary offer. On March 10, 2004, the Company paid a \$3.00 per share liquidating distribution. Following this liquidating distribution, the auction process resulted in the Company receiving three non-binding initial indications of interest from unaffiliated third parties, at prices ranging from \$1.50 per share to \$2.25 per share and a non-binding initial indication of interest from SSJJJ, at a price of \$2.83 per share. A Special Committee of the Company's Board of Directors, (the "Special Committee") comprised solely of independent directors, was formed to evaluate SSJJJ's preliminary indication of interest. After further discussions between the Special Committee and SSJJJ, SSJJJ indicated that it may be willing make a binding offer of \$2.80 per share to purchase the Company's business as a going concern. SSJJJ informed the Special Committee on August 9, 2004, that it would not be making a binding offer at that time to purchase the Company's business. On August 11, 2004, the Company announced that it suspended its formal auction process because it failed to receive a binding offer to purchase the Company's business as a going concern.

The Company announced on March 9, 2005 that it had received a preliminary non-binding indication of interest from SSJJJ Manufacturing Co., Inc., an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ"), to acquire the business, as a going concern, at a price of \$2.80 per share. A Special Committee of the Company's Board of Directors, comprised solely of independent directors, is currently evaluating SSJJJ's preliminary non-binding indication of interest.

Under the Plan, if the Company's business is not sold prior to May 30, 2005, the Company will be required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders. If the Company's assets and liabilities are transferred to a liquidating trust on May 30, 2005, the Company's stock transfer books will close and its common stock will be delisted from trading on the AMEX effective on the close of business on May 30, 2005. Thereafter, certificates representing shares of Company common stock will not be assignable or transferable on the books of the Company, except by will, intestate succession or by operation of law. Thus, at such time, it will no longer be possible for the Company's stockholders to publicly trade the Company's stock and the proportionate interests of all of the Company's stockholders will be fixed on the basis of their respective stock holdings at the close of business on May 30, 2005. After such date, any distributions made by the Company will be made solely to the stockholders of record at the close of business on May 30, 2005, except as may be necessary to reflect subsequent transfers recorded on the Company's books from any transfers by will, intestate succession or by operation of law. The interests in any liquidating trust will not be transferable.

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There can be no assurance that the Company will be able to sell its business as a going concern, that the Company will be able to liquidate all of its assets prior to May 30, 2005, or that the sale of its business and assets will generate proceeds to the stockholders in an amount equal to or greater than the market price of its stock or the liquidation value of its assets.

Due to the uncertainty as to whether the Company will be sold prior to May 30, 2005, the Company and its accountants, BDO Siedman, LLP, have determined that it is more appropriate to present the Company's financial statements on a liquidation basis. Therefore, we changed our basis of accounting to the liquidation basis as of November 27, 2004. Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts. Included in the liabilities, we accrued approximately \$11.6 million in costs of liquidation representing the Company's estimate of the costs and expenses to be incurred during actual liquidation. There can be no assurance that actual liquidation costs and expenses will be equal to the Company's estimated liquidation costs and expenses.

The amount of distributions ultimately available to be made to shareholders upon the final liquidation of the Company may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and actual costs of liquidation.

The accompanying statements of operations, shareholders' equity and cash flows for the period November 30, 2003 to November 26, 2004 (fiscal 2004) and for each of the years in the two year period ended November 29, 2003 and November 30, 2002 have been presented on a going concern basis comparable to prior periods.

Upon approval of the Plan by the stockholders on May 30, 2002 the Employee Stock Ownership Plan (the ESOP) was terminated and all shares of common stock of the Company then in the ESOP suspense account (86,456 shares) were transferred to the Company, and held as treasury stock in exchange for the cancellation of the outstanding loan in the amount of \$3,957,000 from the Company to the ESOP. The Company recorded the related treasury stocks at fair market value on the date of termination, which resulted in a \$2.4 million charge to additional paid-in-capital.

Pursuant to resolutions adopted by the Company's Board of Directors and documentation sent to and returned to the Company by option holders, effective immediately following stockholder approval of the Plan on May 30, 2002, all outstanding options under the Company's 1997 Stock Incentive Plan became vested, and all options as to which optionees (including employees and directors) had returned to the Company the appropriate forms (representing options held by all but one optionee, who exercised via payment to the Company) were exercised through the issuance of loans from the Company to the optionees, with stock of the optionees held as collateral by the Company until the loans have been satisfied. The amount loaned to the employees and directors to exercise their options was approximately \$1,495,000, which was all repaid prior to August 30, 2003. These options were subject to variable accounting at each reporting period, until the loans were repaid. In June 2003, the Company repurchased 22,984 shares of its common stock at \$9.48 per share from employees and directors with outstanding loans from the Company and offset the related payment against the loans due from such employees and directors, which were due as of May 31, 2003 with a one month grace period. The Company purchased the number of shares necessary for the employees and directors to pay off all outstanding loans, including interest.

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OPERATIONS

Fab is a supplier of knitted fabrics and lace in the domestic textile industry. [The Company](#) currently operates in three segments: (1) Apparel Fabrics, (2) Home Fashions and Accessories, and (3) Other, consisting of the Gem Urethane operation, the Over-the-Counter Retail operation, located at the Salisbury Manufacturing facility, and Industrial Fabrics.

APPAREL FABRICS

[The Company](#)'s basic warp and circular knit fabrics are sold to manufacturers of outerwear, intimate apparel, loungewear, and activewear. These fabrics are sold primarily in piece dyed form, as well as in "PFP" (prepared for print), and heat transfer print configurations.

[The Company](#)'s wide elastic fabrics are sold to manufacturers of intimate apparel, foundation, swimwear, athleticwear, aerobicwear, sportswear, and healthcare products.

[The Company](#)'s lace products are sold to manufacturers of intimate apparel, hosiery, ladies sportswear, children's wear, swimwear, accessories, and hobbies and crafts.

HOME FASHIONS AND ACCESSORIES

[The Company](#) utilizes its internally manufactured fabrics and laces to produce flannel and satin sheets, blankets, comforters, and other bedding-related products which are sold to specialty retail stores, catalog and mail order companies and airlines through [the Company](#)'s subsidiary, Salisbury Manufacturing Corporation.

OTHER

Included in this segment is (1) Gem Urethane Corporation, (2) the Over-the-Counter Retail operation, and (3) Industrial and other miscellaneous fabrics.

[The Company](#)'s subsidiary, Gem Urethane Corporation produces a line of bonded products for manufacturers of environmental, healthcare, industrial and consumer products.

Gem also performs commission laminating for various manufacturers of consumer products. Fire resistant fabrics are sold to manufacturers in the seating, transportation, and military markets through its subsidiary Sandel International Corporation.

[The Company](#) also sells its fabric and laces to "Over-the-Counter" retail customers through [the Company](#)'s retail manufacturing operations, which are located at [the Company](#)'s Salisbury Manufacturing plant.

Specialized, engineered fabrics are sold to manufacturers of industrial, healthcare, medical, and military products.

In the first quarter 2004, certain equipment was sold to a customer who previously owned 50% of the equipment. The proceeds from the sale amounted to \$1,100,000. As a result, the customer at a future date will be doing the production on its own.

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GENERAL

We engage in research and product development activities to create new fabrics and styles to meet the continually changing demands of our customers. Direct expenditures in this area aggregated \$1,690,000 in fiscal 2002, \$850,000 in fiscal 2003, and \$775,000 in fiscal 2004. Through these efforts, we have developed a full line of proprietary knitted fabrics for sale to manufacturers of men's, women's, and children's apparel in both domestic and foreign markets. Similarly, we have also developed a full line of flannel and satin sheets and blankets, including specialty blankets for the airline and health care institutions.

While we use various trademarks and trade names in the promotion and sale of our products, we do not believe that the loss or expiration of any such trademark or trade name would have a material adverse effect on our operations.

We market our products primarily through our full-time sales personnel, as well as independent representatives located throughout the United States and abroad.

We do not believe our backlog of firm orders is a material indicator of future business trends because goods subject to such orders are shipped within two to ten weeks depending on the availability of yarn and other raw materials. On average, orders are filled within six weeks.

During fiscal 2004, one customer accounted for approximately 13% of net sales. The receivable from this customer represents approximately 26% of consolidated accounts receivable at November 27, 2004. No single customer accounted for net sales greater than 10% of consolidated net sales for the fiscal years 2003 and 2002. No single customer had a net balance due greater than 10% of consolidated net accounts receivable at November 29, 2003. Our export sales are not material.

SUPPLIES OF RAW MATERIALS

We have not experienced difficulties in obtaining sufficient yarns, chemicals, dyes and other raw materials and supplies to maintain full production. We do not depend upon any single source of supply, and alternative sources are available for most of the raw materials used in our business.

INVENTORIES

We maintain adequate inventories of yarns and other raw materials to ensure an uninterrupted production flow. Greige and finished goods are maintained as inventory to meet varying customer demand and delivery requirements. We must maintain adequate working capital, because credit terms available to customers normally exceed credit terms extended to us by suppliers of raw materials.

COMPETITION

Fab is engaged in a highly competitive global business, which is based largely upon price, product quality, service and general consumer demand for the Company's finished goods. The portion of imported textile goods sold in the United States has increased substantially in the past few years, adversely impacting domestically manufactured textile products and the number of domestic manufacturers of such products. Our sales have declined from approximately \$151,000,000 in 1998 to approximately \$50,000,000 in 2004, largely as a result of increased foreign competition.

SEGMENT INFORMATION

See Note 14 of the Notes to Consolidated Financial Statements.

EMPLOYEES

At April 10, 2005, the Company employed approximately 475 people, of whom approximately 455 are employed by our subsidiaries. The employees are not represented by unions. We consider relations with our employees to be satisfactory. The number of our employees has declined from approximately 1,600 at the end of 1998 to approximately 475 on April 10, 2005.

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ITEM 2. PROPERTIES.

The Company conducts its manufacturing operations in Lincolnton and Salisbury, North Carolina, and Amsterdam, New York. Yarn receiving and storage, dye and chemical receiving and storage, knitting operations, and dyeing and finishing operations are conducted at the Mohican Mills facility. These operations more specifically include tricot (warp knit) and raschel warping, tricot knitting, raschel lace knitting, wide elastic/stretch raschel knitting, circular and double-knit knitting, dyeing, framing, surface finishing including sueding, napping, shearing, heat transfer printing, lace separation, all facility-wide quality operations, laboratory testing and certification, yielding, packaging, and shipping. The Mohican Mills facility also processes and serves as a warehouse for greige and finished fabrics and lace.

The Salisbury facility is the site of our consumer and institutional finished products manufacturing, the Over-The-Counter Retail Operation, and the Company's Mill Outlet Store. The Gem Urethane plant in Amsterdam, New York utilizes approximately 106,000 square feet for production. Fab closed two manufacturing plants, Travis Knits in Cherryville, North Carolina and Adirondack Knitting in Amsterdam, New York, during the first week of July 2001. The Adirondack Knitting Plant was on an operating lease which expired at the time of closure.

In addition, on November 16, 2001, Fab closed its manufacturing plant in Maiden, North Carolina. The manufacturing operations of each of these facilities were consolidated into the Company's Mohican Mills facility located in Lincolnton, North Carolina. The Company is attempting to sell its plants in Cherryville and Maiden, North Carolina.

Over the past three years, the Company has reduced the floor space of its executive offices and showroom facilities in its New York City headquarters.

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The following table sets forth the location of each of Fab's current manufacturing facilities, its current principal use, if any, approximate floor space and, where leased, the lease expiration date. There are no mortgages or other encumbrances on any of our facilities. All [the Company's](#) operating facilities are in good operating condition and repair.

[Enlarge/Download Table]

LOCATION	PRINCIPAL USE	APPROXIMATE FLOOR SPACE	LEASE EXPIRATION DATE
Lincolnton, North Carolina	Dyeing and finishing, raschel and tricot knitting, circular single and double knitting, tricot and raschel warping, printing and warehousing.	630,550 sq. ft. (1)	
Lincolnton, North Carolina	Warehouse	55,000 sq. ft. (1)	
Maiden, North Carolina	(3)	224,013 sq. ft. (1)	
Salisbury, North Carolina	Manufacturing finished consumer and institutional products and retail and over-the- counter fabrics	125,000 sq. ft. (1)	
Amsterdam, New York	Laminated fabrics, fire fighting material manufacturing operations and bonding and laminating	106,000 sq. ft. (2)	
Cherryville, North Carolina	(3)	197,000 sq. ft. (1)	
New York, New York	Executive offices and showroom facilities	5,753 sq. ft.	7/31/05

- (1) Company owned.
(2) The lease currently runs from month to month.
(3) These facilities were closed during 2001 and are currently subject to a brokerage sale agreement. Manufacturing operations were consolidated into Fab's Mohican Mills facility located in Lincolnton, North Carolina.

All of our facilities are constructed of brick, steel or concrete, and we consider all facilities to be adequate and in good operating condition and repair.

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ITEM 3. LEGAL PROCEEDINGS.

On November 10, 2003, a class action complaint was filed against the Company in Delaware Chancery Court. The complaint asserts claims against the Company and certain of its officers and directors based on the management buy-out proposal at a price allegedly lower than the cash value and book value of the Company's shares which was an allegedly interested transaction, the amendment to Mr. Bitensky's employment contract discussed below in Item 7, and the Company's failure to file a certificate of dissolution with the Delaware Secretary of State. The complaint alleges such actions constitute violations of defendants' fiduciary duties, as well as the provisions of the Delaware General Corporation Law. The complaint does not seek a specific amount of damages, and seeks to enjoin defendants from effectuating the planned management buyout. The Company served an answer to the complaint on December 11, 2003.

On each of November 21 and November 26, 2003, additional class action lawsuits were initiated against the Company in Delaware Chancery Court, asserting substantially the same allegations as those described above.

The Company believes that each of the claims described above is without merit. Further, certain of the claims described above have been rendered moot by the withdrawal of the preliminary offer by the management-led buyout group to acquire the Company.

By petition dated September 9, 2004, plaintiff requested that all of its claims be dismissed because they have been rendered moot by the withdrawal of the management buy-out and there is no current plan to effectuate a sale of the Company's assets. Plaintiff also petitioned the Court for an award of reasonable attorney's fees in the amount of \$300,000 and attorney's expenses of \$13,794.05 (the "Fee Petition") because plaintiff's claim conferred a benefit on the Company's public stockholders by preventing the consummation of the proposed management buy-out and preserving the value of the public stockholders' investment in the Company's stock. The Company opposed the petition.

On December 29, 2004 the Court of Chancery of the State of Delaware denied the Fee Petition. The Court concluded that the Fee Petition should be denied as plaintiff's claims either were not meritorious when filed or, to the extent that they were, they are not yet moot.

Following that decision, plaintiff moved for summary judgment on its claims relating to the Company's alleged failure to timely file a certificate of dissolution and seeking a declaration that the plan of dissolution (the "Plan") is invalid for failure to require a shareholder vote before the sale of all of the Company's assets. The motions were fully briefed and argued before the Court on April 12, 2005. On May 2, 2005, the court issued its opinion holding that the Plan is valid in its entirety and that the Company has not violated Delaware law by not yet filing its certificate of dissolution. The court stated that the Company may negotiate and agree to a sale before the certificate of dissolution is filed, but that the sale cannot be consummated until the certificate of dissolution has become effective. The court concluded that once the dissolution becomes effective, Fab may consummate a sale of its assets without a shareholder vote.

A number of other claims and lawsuits are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion, based upon information presently available, that it is unlikely that any liability, would be material in relation to the Company's consolidated financial position or results of operations.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS.

Not Applicable

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PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

Fab's Common Stock is traded on the American Stock Exchange, Inc. (ticker symbol - FIT). The table below sets forth the high and low sales prices of the Common Stock during the past two fiscal years.

FISCAL 2004 -----	HIGH ----	LOW ----
First Quarter.....	\$ 6.25	\$ 5.08
Second Quarter.....	\$ 6.60	\$ 3.25
Third Quarter.....	\$ 4.50	\$ 3.33
Fourth Quarter.....	\$ 4.39	\$ 3.74
FISCAL 2003 -----		
First Quarter.....	\$ 9.00	\$ 8.15
Second Quarter.....	\$ 9.75	\$ 8.98
Third Quarter.....	\$ 11.25	\$ 6.70
Fourth Quarter.....	\$ 7.50	\$ 4.63

At April 22, 2005, there were approximately 737 holders of record of Common Stock. On May 30, 2002, the Company's Board of Directors declared an initial liquidating distribution of \$10.00 per share, which was paid on June 24, 2002, with a record date of June 10, 2002. Accordingly, \$52,380,000 was paid on June 24, 2002. On August 1, 2003, the Company's Board of Directors declared a second liquidating distribution of \$4.00 per share, which was paid on August 22, 2003, with a record date of August 11, 2003. Accordingly, \$20,860,000 was paid on August 22, 2003. On February 18, 2004 the Company's Board of Directors declared a third liquidating distribution of \$3.00 per share, which was paid on March 10, 2004 with a record date of February 28, 2004. Accordingly, \$15,645,000 was paid on March 10, 2004.

On March 15, 2005, the Company received a letter from the American Stock Exchange ("AMEX") that it is not in compliance with continued listing standards as set forth in Section 1101 of the AMEX Company Guide as a result of the Company's failure to file its annual report on Form 10-K for the fiscal year ended November 27, 2004 and that trading of the Company's common stock would be halted as a result thereof. On March 15, 2005, AMEX halted trading of the Company's common stock. AMEX further advised the Company that it would initiate proceedings to delist the Company's common stock from the AMEX on April 14, 2005, if the Company was not then in compliance with all AMEX continued listing standards or the AMEX determined that the Company had made reasonable demonstration of its ability to regain compliance with such listing standards. AMEX requested that the Company submit a plan by March 25, 2005, advising AMEX what actions the Company will take to regain compliance with all AMEX continued listing standards.

On March 24, 2005, the Company notified the AMEX that the preparation of its financial statements for the fiscal year ended November 27, 2004 will be complete within the next two weeks. On April 14, 2005, the Company asked for an additional two weeks extension. Accordingly, Fab believes once this 10-K is filed and its 10-Q for the quarter ended February 26, 2005 is filed it will be in compliance with the AMEX requirements in this respect.

On April 11, 2005, the Company filed a form 12b-25 indicating that it would not be able to timely file its 10-Q for the first quarter ended February 26, 2005.

The Company has terminated all of its stock option plans and as a result there are no options outstanding or available for grant.

(8)

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA.
(in thousands, except for share and per share data)

[Enlarge/Download Table]

	AS AT OR FOR THE FISCAL YEAR ENDED				
	THRU NOVEMBER 30, 2003 NOVEMBER 26, 2004	NOVEMBER 29, 2003	NOVEMBER 30, 2002	DECEMBER 1, 2001	DECEMBER 2, 2000 (1)
Net Sales	\$49,660	\$51,173	\$62,965	\$80,036	\$118,185
Income (loss) before taxes on	(107)	(1,545)	3,010	(15,488)	4,178
Income (2) (5)					
Net income (loss) (2)	(72)	(1,370)	1,970	(8,623)	3,033
Earnings (loss) per share: (5)					
Basic					
Diluted	(.01)	(.26)	.38	(1.64)	.57
Total assets (6) (7)	--	57,783	80,937	131,236	151,120
Long-term debt	--	--	--	311	362
Redeemable Common Stock	--	--	7,000	7,000	7,000
Stockholders' equity (6) (7)	--	48,637	64,279	113,211	123,563
Book value	--	9.38	12.33	21.79	23.45
per share (3) (7)					
Cash dividends per share (4)	3.00	4.00	10.00	.40	.475
Weighted average number of shares outstanding:					
Basic	5,215,031	5,226,902	5,222,812	5,258,353	5,336,958
Diluted	5,215,031	5,226,902	5,222,812	5,258,353	5,336,958

Net assets in liquidation: (7) NOVEMBER 27, 2004

Cash and cash equivalents and investment securities	\$19,894,000
Accounts receivable	7,057,000
Property, plant and equipment	6,082,000
Other assets	4,551,000

Total assets	37,584,000
Total liabilities	20,597,000

Net assets in liquidation	\$16,987,000
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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA (CONT.)

- (1) Fifty-three week period.
- (2) Fiscal year ended December 1, 2001 amounts include asset impairment and restructuring charges of \$14,530,000.
- (3) Computed by dividing stockholders' equity by the number of shares outstanding at year-end.
- (4) Fiscal years ended November 27, 2004, November 29, 2003 and November 30, 2002 cash dividends represent liquidating dividends.
- (5) Fiscal year ended November 30, 2002 includes litigation settlement of \$750,000 and fiscal year ended November 29, 2003 includes \$685,000 in asset impairment charges and \$1,659,000 in charges resulting from the amended employment agreement between the Company and Mr. Bitensky. Fiscal year ended November 27, 2004 includes \$615,000 in asset impairment charges and environmental costs of \$226,000.
- (6) The consolidated financial statements for the years ended November 29, 2003, November 30, 2002, December 1, 2001 and December 2, 2000 have been restated to correct an error relating to the fact that the Company has not depreciated certain improvements to its land, mainly consisting of two parking lots constructed in 1984 and 1989 with a cost totaling approximately \$292,000.
- (7) Due to the uncertainty as to whether the Company will be sold prior to May 30, 2005, the Company and its accountants BDO Siedman, LLP have determined that it is more appropriate to present the Company's financial statements on a liquidation basis. Therefore, we changed our basis of accounting to the liquidation basis as of November 27, 2004. Under the liquidation basis of accounting, assets are stated at their estimated realizable value and liabilities at their anticipated settlement amounts.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The domestic textile industry has been negatively affected by a flow of low cost foreign imports and market conditions since 1998.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002.

The Company engaged the investment banking firm of McFarland Dewey & Co., LLC in November 2002 to assist it with the sale of the Company's business. McFarland Dewey contacted over 80 potential acquirers during the course of this eighteen-month process. On October 14, 2003, the Company announced that it had yet to receive any bona-fide offers to acquire the business as a going concern. Following that announcement, on October 23, 2003, the Company received a preliminary offer from a management-led buyout group to acquire the business, as a going concern, for \$3.75 per share. The Company subsequently announced on November 14, 2003, that a stockholder filed a lawsuit, naming as defendants, the Company and each of its directors, seeking class-action certification, preliminary and permanent injunctions against the proposed management-led buyout, and unspecified damages. The preliminary offer from the management-led buyout group was subsequently withdrawn.

The Company continued the auction process following the withdrawal of the management-led buyout group's preliminary offer. On March 10, 2004, the Company paid a \$3.00 per share liquidating distribution. Following this liquidating distribution, the auction process resulted in the Company receiving three non-binding initial indications of interest from unaffiliated third parties, at prices ranging from \$1.50 per share to \$2.25 per share and a non-binding initial indication of interest from SSJJJ, at a price of \$2.83 per share. A Special Committee of the Company's Board of Directors, comprised solely of independent directors, was formed to evaluate SSJJJ's preliminary indication of interest. After further discussions between the Special Committee and SSJJJ, SSJJJ indicated that it may be willing make a binding offer of \$2.80 per share to purchase the Company's business as a going concern. SSJJJ informed the Special Committee on August 9, 2004, that it would not be making a binding offer at that time to purchase the Company's business. On August 11, 2004, the Company announced that it suspended its formal auction process because it failed to receive a binding offer to purchase the Company's business as a going concern.

The Company announced on March 9, 2005 that it had received a preliminary non-binding indication of interest from SSJJJ Manufacturing Co., Inc., an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ"), to acquire the business, as a going concern, at a price of \$2.80 per share. A Special Committee of the Company's Board of Directors, comprised solely of independent directors, is currently evaluating SSJJJ's preliminary non-binding indication of interest.

Under the Plan, if the Company's business is not sold prior to May 30, 2005, the Company will be required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders. If the Company's assets and liabilities are transferred to a liquidating trust on May 30, 2005, the Company's stock transfer books will close and its common stock will be delisted from trading on the AMEX effective on the close of business on May 30, 2005. Thereafter, certificates representing shares of Company common stock will not be assignable or transferable on the books of the Company, except by will, intestate succession or by operation of law. Thus, at such time, it will no longer be possible for the Company's stockholders to publicly trade the Company's stock and the proportionate interests of all of the Company's stockholders will be fixed on the basis of their respective stock holdings at the close of business on May 30, 2005.

After such date, any distributions made by the Company will be made solely to the stockholders of record at the close of business on May 30, 2005, except as may be necessary to reflect subsequent transfers recorded on the Company's books from any transfers by will, intestate succession or by operation of law. The interests in any liquidating trust will not be transferable.

There can be no assurance that the Company will be able to sell its business as a going concern, that the Company will be able to liquidate all of its assets prior to May 30, 2005, or that the sale of its business and assets will generate proceeds to the stockholders in an amount equal to or greater than the market price of its stock or the liquidation value of its assets.

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Due to the uncertainty as to whether the Company will be sold prior to May 30, 2005, the Company and its accountants, BDO Siedman, LLP, have determined that it is more appropriate to present the Company's financial statements on a liquidation basis. Therefore, we changed our basis of accounting to the liquidation basis as of November 27, 2004. Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts. Included in the liabilities, we accrued approximately \$11.6 million in costs and expenses of liquidation representing the Company's estimate of the costs to be incurred during actual liquidation. There can be no assurance that actual liquidation costs and expenses will be equal to the Company's estimated liquidation costs and expenses.

The amount of distributions ultimately available to be made to shareholders upon the final liquidation of the Company may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and actual costs of liquidation.

The accompanying statements of operations, shareholders' equity and cash flows for the period November 30, 2003 to November 26, 2004 (fiscal 2004) and for each of the years in the two year period ended November 29, 2003 and November 30, 2002 have been presented as a going concern basis comparable to prior periods.

At November 27, 2004, the following represent the Company's estimated costs and expenses of liquidation:

Compensation and benefits	\$ 6,191,000
Defined benefit pension plan	2,033,000
Legal, audit and tax service	1,250,000
Insurance	450,000
Other costs, including property taxes, utilities, maintenance, repairs, stationery supplies, postage and security	1,665,000

TOTAL	\$11,589,000
	=====

CRITICAL ACCOUNTING ESTIMATES

Our critical accounting estimates are those which we believe require our most significant judgments about the effect of matters that are inherently uncertain. A discussion of our critical accounting estimates, the underlying judgments and uncertainties used to make them and the likelihood that materially different estimates would be reported under different conditions or using different assumptions, is set forth below:

Uncertainties

Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts which approximates the \$16,987,000 net orderly liquidation value. Included in the liabilities, we accrued approximately \$11.6 million in costs of liquidation representing the estimate of the costs to be incurred during liquidation, however, actual costs could vary from those estimates. Distributions ultimately made to the shareholders upon liquidation will differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and final costs of liquidation.

Accruals and Contingencies

We periodically assess the potential liabilities related to any lawsuits or claims brought against us, as well as for other known unasserted claims, including environmental, legal and tax matters. While it is typically very difficult to determine the timing and ultimate outcome of these matters, we use our best judgment to determine if it is probable that we will incur an expense related to the settlement or final adjudication of such matters and whether a reasonable estimation of such probable loss, if any, can be made. In assessing probable losses, we make estimates of the amount of insurance recoveries, if any. We accrue a liability when we believe a loss is probable and the amount of the loss can be reasonably estimated, in accordance with the provisions of SFAS No. 5, "Accounting for Contingencies," as amended. See Note 9 in the accompanying financial statements for additional information concerning our contingencies.

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The Company maintains a non-contributory defined benefit pension plan (Fab Industries, Inc. Hourly Employees' Retirement Plan) which covers substantially all hourly employees. The Plan provided benefits based on the participants' years of service.

An estimate of the liability associated with terminating the plan for underfunding of the hourly plan would be approximately \$2.0 million. This will be assessed by the Pension Benefit Guarantee Corporation. This has been included in the estimated costs of liquidation. The Company plans to terminate the non-contributory defined benefit pension plan and distribute the lump sum payment to it's participant on transfer of the Company to the liquidating trust.

Given the inherent uncertainty related to the eventual outcome of these matters and potential insurance recoveries, it is possible that all or some of these matters may be resolved for amounts materially different from any provisions or disclosures that we may have made with respect to their resolution. In addition as new information becomes available, we may need to reassess the amount of probable liability that needs to be accrued related to our contingencies. All such revisions in our estimates could materially impact our results of operations and financial position.

We maintain an accrual for workers compensation, which is classified as other current liabilities in our consolidated balance sheets. We determine the adequacy of the accrual by periodically evaluating our historical experience and trends related to workers compensation claims and payments, information provided to us by our insurance broker and industry experience and trends. If such information indicates that our accrual is overstated or understated, we will adjust the assumptions utilized in our methodologies and reduce or provide for additional accruals as appropriate.

Bad Debt

We maintain allowances for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Revenue Recognition

The Company recognizes its revenue upon shipment of related goods. Shipping terms are FOB shipping point pursuant to the Company's sales agreements. Risk of loss transfers to the Company's customers at the time the goods are transferred to a common carrier, per the Company's sales agreements. The acceptance of goods by customers is not subject to inspection. Allowances for estimated returns are provided when sales are recorded.

Impairment of Long-lived Assets

Whenever events or circumstances indicate that the carrying values of long-lived assets (including property, plant and equipment) may be impaired, we perform an analysis to determine the recoverability of the asset's carrying value. The carrying value of the asset includes the original purchase price (net of depreciation) plus the value of all capital improvements (net of depreciation). If the analysis indicates that the carrying value is not recoverable from future cash flows, we write down the asset to its estimated fair value and recognize an impairment loss. The estimated fair value is based on what we estimate the current sale price of the asset to be based on comparable sales information or other estimates of the asset's value. Any impairment losses we recognize are recorded as operating expenses. In 2001, we recognized \$13.2 million of impairment losses. We did not recognize any impairment losses in 2002. In 2004 and 2003, the Company reviewed assets held for sale and determined an additional impairment charge of \$615,000 and \$685,000, respectively, was required.

We make estimates of the undiscounted cash flows from the expected future operations of the asset. In projecting the expected future operations of the asset, we base our estimates on future budgeted earnings before interest expense, income taxes, depreciation and amortization, or EBITDA, and use growth assumptions to project these amounts out over the expected life of the underlying asset. If actual conditions differ from those in our assumptions, the actual results of each asset's actual future operations could be significantly different from the estimated results we used in our analysis. Our operating results are also subject to the risks set forth under "Summary of Accounting Policies - Risk and Uncertainties."

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Results of Operations

NOVEMBER 30, 2003 THRU NOVEMBER 26, 2004 (FISCAL 2004) COMPARED TO FISCAL 2003

Net sales for the fiscal 2004 were \$49,660,000 as compared to \$51,173,000 in fiscal 2003, a decrease of 3.0 %. The domestic textile industry has been negatively affected by a flow of low cost foreign imports and market conditions since 1998. Apparel external sales for fiscal 2004 were \$37.3 million, compared to \$39.1 million in fiscal 2003, a decrease of \$1.8 million or 4.6%. Home Fashion and Accessories external sales for fiscal 2004 were \$4.5 million compared to \$4.2 million in fiscal 2003, an increase of \$0.3 million or 7.1%. Other external sales for fiscal 2004 were \$7.9 million, compared to \$7.8 million in fiscal 2003, an increase of \$0.1 million or 1.3%. The decreases in the apparel segment were caused substantially by lower volume due to continued weakness in the domestic textile industry and market conditions and increased foreign competition. There was a slight increase in the home fashions and accessories and other segments.

Gross margins as a percentage of sales increased to 9.9% from 8.3% in the similar 2003 period. For fiscal 2004, an increase in LIFO reserves of \$314,000 was recorded. This was due to higher FIFO prices. For fiscal 2003, LIFO inventory reserves decreased \$607,000, due to lower average FIFO cost levels. Additionally, gross margin has increased as a result of a decrease in depreciation expense of \$309,000 for fiscal 2004 compared to the prior comparable period. This decrease in depreciation expense is a result of the sale of fixed assets and fixed assets that have been fully depreciated over the past year. Reductions in costs due to employee terminations and related expenses in our production facilities also aided gross profit in fiscal 2004. Management is hopeful that future gross margins will show an improvement over the current year's performance due to an expected reduction in costs due to employee terminations and related expenses in fiscal 2004 and a decrease in expected depreciation as a result of a reduction in capital expenditures over the last few years and assets which will become fully depreciated in 2005, tempered, however, by the continuing deterioration in domestic textile manufacturing due to foreign imports.

Selling, general and administrative expenses for fiscal 2004 increased by \$229,000 or 3.6% compared to the prior comparable period due to a decrease in payroll totaling \$551,000, as a result of employee terminations over the past year, offset by an increase in professional fees totaling \$320,000, mainly incurred in the first two quarters of 2004, relating to legal fees included in connection with the class action law suits filed in November of 2003 (See Note 9 to the Consolidated Financial Statements), and an increase in bad debt expense totaling \$200,000 as a result of several customers who filed for bankruptcy or have been unable to make their required payments due in the current year. In addition in fiscal 2004, we have recorded compensation expenses and an offset to investment income totaling \$155,000 to reflect changes in the fair value of the trading securities held by the nonqualified defined contribution plan, in accordance with EITF 97-14.

During fiscal 2004 and fiscal 2003 the Company reviewed assets held for sale and determined an additional impairment charge of \$615,000 and \$685,000 respectively was required. These expenses apply to the apparel segment.

In fiscal 2004, the Company recorded an expense of \$226,000 for environmental costs. The expense represents the costs associated with the lagoon cleaning process as per North Carolina State requirements to eliminate odors in a lagoon, which is located next to one of our plants. The lagoon process has been completed and all costs associated with the process have been paid. For the fiscal year ended November 29, 2003, a charge of \$1,659,000 was recorded which represents certain amendments to the agreement with the Chief Executive Officer. See Note 9 to the Consolidated Financial Statements. This amount was allocated between segments with a majority included in the apparel segment.

For the fiscal year ended 2004, the Company had a gain on the sale of fixed assets of \$1,073,000 compared to \$427,000 in last year's comparable period. Approximately \$441,000 of the current year gain belongs to the other segment and the balance applies to the apparel segment. The fixed assets which were sold in the first quarter of 2004 relating to the other segment, were sold to a customer, which previously owned 50% of the equipment. The proceeds from this sale amounted to \$1,100,000. As a result, the customer, at an undeterminable future date will be doing the production on its own.

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Apparel operating loss for fiscal 2004 was \$3.0 million compared to an operating loss of \$4.6 million for fiscal 2003. Lower sales volume in fiscal 2004 reduced operating schedules at production facilities. The apparel segment includes gain on the sale of fixed assets of \$632,000 offset by \$226,000 for environmental costs.

Home Fashion and Accessories operating income for 2004 was \$0.2 compared to an operating loss of 0.2 in fiscal 2003.

Other segment operating income for fiscal 2004 was \$1.3 million compared to \$0.7 million in fiscal 2003. Of this, \$441,000 includes gain on the sale of fixed assets, which were sold to a customer who previously owned 50% of the equipment. The proceeds from this sale amounted to \$1,100,000. As a result, the customer, at an undeterminable future date will be doing the production on its own. In addition, higher margins increased operating income.

Interest and dividend income decreased by \$638,000 or 49.9% as compared to fiscal year 2003. On March 10, 2004, the Company distributed its third liquidating dividend of \$3.00 per share, or \$15,645,000. On August 22, 2003 the Company distributed its second liquidating distribution of \$4.00 per share or \$20,860,000. Accordingly, the Company had lower investment balances. In addition, interest income includes a \$155,000 gain reflecting an increase in the fair value of the trading securities held by the nonqualified defined contribution plan, in accordance with EITF 97-14.

The Company realized gains from the sale of investment securities of \$759,000 in fiscal 2004 as compared to \$1,266,000 in fiscal 2003.

The Company realized a tax benefit for fiscal 2004 and fiscal 2003 of 32.7% and 11.3%, respectively.

As a result of these factors, the Company had a net loss of \$72,000 or 0.01 basic and diluted loss per share for fiscal 2004, and a net loss of \$1,370,000 or 0.26 basic and diluted loss per share in fiscal 2003.

FISCAL 2003 COMPARED TO FISCAL 2002

Net sales for the fiscal 2003 were \$51,173,000 as compared to \$62,965,000 in fiscal 2002, a decrease of 18.7%. Since 1998, a flood of low-cost foreign imports continued to take a sustained toll in the U.S. textile manufacturing sector and negatively impacted segment decline in sales and production

Apparel external sales for fiscal 2003 were \$39.1 million, a decrease of \$12.2 million or 23.8%, as compared to \$51.3 million for fiscal 2002.

Home Fashion and Accessories external sales for fiscal 2003 were \$4.2 million compared to \$4.7 million in fiscal 2002, a decrease of \$0.5 million or 10.6%.

Other external sales for fiscal 2003 were \$7.8 million, compared to \$7.0 million in fiscal 2002, an increase of \$0.8 million or 11.4%.

The decreases in the apparel and home fashions segments were due to a loss of customers and related sales volume, which resulted from the continued influx of low-cost foreign imports and continued weakness in the domestic textile industry. The increase in other is due primarily to our subsidiary, Gem Urethane Corporation, which experienced an increase in volume to several customers.

The apparel and home fashions segments implemented measures beginning in fiscal 2001 to reduce operating costs including a reduction in the number of employees, which reduced fixed overhead.

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Gross margins as a percentage of sales decreased to 8.3% compared to 10.4% in the similar 2002 period. Lower sales volumes reduced operating schedules at production facilities. Due to lower average FIFO cost levels, LIFO inventory reserves decreased by \$607,000 and \$96,000 in fiscal 2003 and 2002, respectively. Management is hopeful that gross margins will show an improvement over last year's performance due to an expected reduction in costs due to employee terminations and related expenses in 2003 and a decrease in expected depreciation as a result of a reduction in capital expenditures over the last few years and assets which will become fully depreciated in 2004, tempered, however, by the continuing deterioration in domestic textile manufacturing due to foreign imports.

Selling, general and administrative expenses decreased by \$1,371,000, or 18.6% as compared to fiscal year 2002. The decrease in expenses results primarily from the reduction in the number of employees and related expenses totaling approximately \$790,000, moving its executive offices and showroom facilities to smaller premises in July 2002 totaling approximately \$335,000, decreases in the amortization of intangible totaling approximately \$124,000 due to the fact that intangibles were fully amortized in 2002, decreases in professional fees totaling approximately \$475,000 as a result of a litigation settlement in fiscal 2002 and the continued effectiveness of the cost containment programs resulting in a decrease in expenses totaling approximately \$360,000, offset by a reduction in gains on the sale of fixed assets totaling approximately \$374,000 and a forgiveness of a debt of \$339,000 in fiscal 2002 which was in selling, general and administrative expenses in fiscal 2002.

During fiscal 2003, [the Company](#) reviewed assets held for sale and determined an additional charge of \$685,000 was required.

For the fiscal year ended November 29, 2003, a charge of \$1,659,000 was recorded which represents certain amendments to the agreement with the Chief Executive Officer. See Note 9 to the Consolidated Financial Statements.

In March 2002, [the Company](#) settled a dispute without admitting liability for \$750,000. See Note 16 to the Consolidated Financial Statements.

Apparel operating loss for fiscal 2003 was \$4.6 million compared to an operating loss of \$0.7 million for fiscal 2002. Lower sales volume affected operating loss by approximately \$690,000 and lower selling margins resulted from the write-down of inventory to market value totaling approximately \$825,000 contributed to the increase in operating loss. In addition, the financial results include other expenses of \$1.7 million, which represents agreement with the Chief Executive Officer (See Note 9). This was allocated between segments with a majority included in the apparel segment (See Note 9). The financial results include a charge for asset impairment of fixed assets \$685,000.

Home Fashion and Accessories operating loss for fiscal 2003 was \$0.2, compared to an operating loss of \$1.1 million for fiscal 2002. In fiscal 2002, the financial results includes a charge of \$750,000 for settlement of a dispute without admitting liability. See Note 16 to the Consolidated Financial Statements.

Other segments operating income for fiscal 2003 was \$0.7 million compared to an operating income of \$0.2 million for fiscal 2002. Higher margins and reduction of costs increased operating income.

Interest and dividend income decreased by \$1,134,000 or 47.0% as compared to fiscal year 2002. On August 22, 2003, [the Company](#) distributed a second liquidating distribution of \$4.00 per share, or \$20,860,000. Accordingly, [the Company](#) had lower invested balances, which were invested primarily in United States Treasury Obligations resulting in lower risks and lower yields. The Company realized gains from the sale of investment securities of \$1,266,000 in fiscal 2003 as compared to \$2,179,000 in fiscal 2002.

[The Company](#) realized a tax benefit for fiscal 2003, which had an effective tax rate of 11.3% as compared to an effective income tax rate of 34.6% in the comparative 2002 period. See Note 8 to the Consolidated Financial Statements.

As a result of these factors, [the Company](#) had a net loss of \$1,370,000, or \$0.26 basic and diluted loss per share, as compared to net income of \$1,970,000, or \$0.38 basic and diluted earnings per share in fiscal 2002.

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Liquidity and Capital Resources

Due to the uncertainty as to whether the Company will be sold prior to May 30, 2005, the Company has determined that it is more appropriate to present the Company's financial statements on the liquidation basis. Therefore, we changed our basis of accounting to the liquidation basis as of November 27, 2004. If the Company is not sold by May 30, 2005, all assets and liabilities will be transferred to a liquidating trust. The liquidating trust would then succeed to all our remaining assets, liabilities and obligations.

Net cash provided by operating activities in fiscal 2004 amounted to \$907,000, primarily due to a decrease in inventories and increase in accounts payable, offset by increases in accounts receivable. The variability of operating cash flows is principally caused by sales fluctuations and the amount of cash provided by changes in working capital accounts. The Company expects to be generating a positive operating cash flow in future periods subject to any unknown events that may arise.

Net proceeds from sales of investment securities were \$10,774,000 for fiscal 2004 compared to \$17,441,000 for fiscal 2003. The Company mainly used the proceeds from sales of investment securities in fiscal 2004 for the third liquidating distribution of \$3.00 per share or \$15,645,000 on March 10, 2004. In fiscal 2003, the Company mainly used the proceeds for sales of investment securities for the second liquidating distribution of \$4.00 per share or \$20,860,000 on August 22, 2003.

As of November 27, 2004, our assets consisted of \$19,894,000 of cash and cash equivalents and investment securities available for sale, \$7,057,000 for accounts receivable, \$1,517,000 for inventories, \$3,034,000 for other assets and \$6,082,000 for property, plant and equipment. Our liabilities consist of \$9,008,000 for accounts payable, accruals and other liabilities, and \$11,589,000 for estimated costs of liquidation. The net assets in liquidation is \$16,987,000. Distribution ultimately made to shareholders upon liquidation will differ from the "net assets in liquidation" as a result in future changes in amounts actually realized on dispositions of assets, as well as settlement of liabilities and obligations and final costs of liquidation.

Inflation

Management does not believe that the effects of inflation have had a significant impact during fiscal years 2004, 2003 and 2002.

COMMITMENTS

On July 25, 2003, the Company and Mr. Bitensky amended the Employment Agreement between the Company and Mr. Bitensky dated as of March 1, 1993 to provide that at such time as the Company is sold or liquidated pursuant to the plan, in lieu of the annual consulting fees due under such agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such an agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment as determined by the Board. Accordingly, the Company recorded a charge of \$856,000, which was included in other expense for the 52 weeks ended November 29, 2003.

Such amendment to the Employment Agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require the Company to purchase upon his death approximately \$10,000,000 of shares of common stock from his estate. In consideration of Mr. Bitensky relinquishing such right, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company. The Company transferred these policies having an aggregate cash surrender value at November 29, 2003 of approximately \$803,000. Accordingly, the Company recorded a charge of \$803,000, which was included in other expenses for the 52 weeks ended November 29, 2003.

OFF BALANCE SHEET ARRANGEMENTS

The Company does not utilize off Balance Sheet arrangements.

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AGGREGATE CONTRACTUAL OBLIGATIONS

The following table provided information as of November 27, 2004.

[\[Enlarge/Download Table\]](#)

CONTRACTUAL OBLIGATIONS (In Thousands)		PAYMENTS DUE BY PERIOD			
CONTRACTUAL OBLIGATIONS	TOTAL	LESS THAN 1 YEAR (1)	1-3 YEARS	3-5 YEARS	MORE THAN 5 YEARS
Long-Term debt	\$ --	\$ --	\$ --	\$ --	\$ --
Capital Lease Obligations	--	--	--	--	--
Operating Leases	121	121	--	--	--
Purchase Obligations	--	--	--	--	--
Other Liabilities Reflected on the Registrant's Balance Sheet under GAAP	3,190	3,190	--	--	--
Total	\$ 3,311	\$ 3,311	\$ --	\$ --	\$ --

FORWARD-LOOKING INFORMATION

Certain statements in this report are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forward-looking statements involve risks and uncertainties. In particular, any statement contained herein, in [press releases](#), written statements or other documents filed with the Securities and Exchange Commission, or in our communications and discussions with investors and analysts in the normal course of business including, but not limited to, meetings, phone calls and conference calls, regarding the sale of our assets pursuant to a [plan of liquidation](#) and dissolution, as well as expectations with respect to future sales and operating efficiencies prior to a sale of [the company](#), are subject to known and unknown risks, uncertainties and contingencies, many of which are beyond our control and which may cause actual results, performance or achievements to differ materially from anticipated results, performances or achievements. Forward-looking statements, which are based on certain assumptions and describe our future plans, strategies and expectations, are generally identifiable by use of the words "may," "should," "expect," "anticipate," "estimate," "believe," "intend" or "project" or the negative of them or other variations of them or comparable terminology.

Factors that could have a material adverse effect on our operations and future prospects include, but are not limited to: our ability to find qualified buyers for our assets; overall economic and business conditions; our continuing ability to support the demand for our goods and services; competitive factors in the industries in which we compete; changes in government regulation; changes in tax requirements (including tax rate changes, new tax laws and revised tax law interpretations); interest rate fluctuations and other capital market conditions, including foreign currency rate fluctuations; material contingencies provided for in a sale of our assets; de-listing of our common stock from the American Stock Exchange; our ability to retain key employees through any wind down period; and any litigation arising as a result of our plan to wind down our operations. These risks and uncertainties should be considered in evaluating any forward-looking statements contained in the Form 10-K.

We undertake no obligation to update or revise a forward-looking statement, whether as a result of new information, future events, or otherwise, other than required by law.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to risk of fluctuations in the market value of equity securities. To manage this exposure, the Company uses derivatives to hedge against fluctuations in the market value of equity securities. The Company's policy is to recognize all derivative instruments as either assets or liabilities on the balance sheet at fair value. Changes in the fair value are recognized in the income statement in the period in which they occur. Derivatives are not used for trading purposes. At November 27, 2004, included in the Company's equity investment securities are short term S & P 100 index put options with a fair value of \$74,120 and short term S & P 100 index call options sold, not yet purchased with a fair value of \$20,710. We believe this is our only area of market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

See the Consolidated Financial Statements, the Notes to Consolidated Financial Statements and the Consolidated Financial Statements Schedules attached hereto.

ITEM 9. CHANGES IN DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Not Applicable

ITEM 9A. CONTROLS AND PROCEDURES

(A) DISCLOSURE CONTROLS AND PROCEDURES. Our Chief Executive Officer and Chief Financial Officer have concluded, based on their evaluation, as of the end of the period covered by this report, that our disclosure controls and procedures (as defined in the Securities Exchange Act of 1934 Rules 13a-15(e) and 15(d)-15(e)) are (1) effective to ensure that material information required to be disclosed by us in reports filed or submitted by us under the Securities Exchange act of 1934, as amended, is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and (2) designed to ensure that material information required to be disclosed by us in such reports is accumulated, organized and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriated, to allow timely decisions regarding required disclosure.

(B) INTERNAL CONTROL OVER FINANCIAL REPORTING. There were no changes in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15(d)-15(f) under the Securities Exchange Act of 1934 , as amended) that occurred during Fab's most recent quarter that has materially affected, or is reasonably likely to materially affect Fab's internal control over financial reporting.

It should be noted that any system of controls, however well designed and operated, can provide only reasonable, and not absolute assurance that the objectives of the system will be met. In addition, the design of any control system is based in part upon certain assumptions about the likelihood of future events. Because of these and other inherent limitations of control systems, there is only reasonable assurance that our controls will succeed in achieving their stated goals under all potential future conditions.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS.

DIRECTORS

The following table sets forth certain information concerning our directors as of May 1, 2005.

[Enlarge/Download Table]

NAME	AGE	PRINCIPAL OCCUPATION AND COMPANY OFFICE (1)	DIRECTOR SINCE
Samson Bitensky.....	85	Chairman of the Board of Directors and Chief Executive Officer (2)	1966
Steven Myers.....	56	President, Chief Operating Officer and Director (3)	2001
Susan B. Lerner.....	48	Former Corporate Counsel of the Company (4)	1997
Richard Marlin.....	70	Attorney, member of the law firm of Kramer Levin Naftalis & Frankel LLP. (5)	1995
Lawrence H. Bober.....	79	Retired, Vice Chairman of the Board, First New York Bank for Business and First New York Business Bank Corp. (6)	1979
Martin B. Bernstein.....	70	Chairman of Bedford Capital Corporation. (7)	1998

- (1) Unless otherwise indicated, the directors' principal occupations have been their respective principal occupation for at least five years.
- (2) Mr. Samson Bitensky was one of [the Company](#)'s founders in 1966 and has served as Chairman of the Board of Directors and Chief Executive Officer of [the Company](#) since such time. Mr. Bitensky also served as President of [the Company](#) from 1970 until May 1, 1997.
- (3) Mr. Steven Myers served as Co-President and Chief Operating Officer of [the Company](#) from May 1997 through July 2001. In August 2001, Mr. Myers became President of [the Company](#) and also maintained the position of Chief Operating Officer. In March 2002, Mr. Myers became Secretary of [the Company](#). Mr. Myers served as Vice President of [the Company](#) from May 1988 to May 1997. He served as Vice President of Sales of [the Company](#) for more than five years prior to May 1988. Mr. Myers is the son-in-law of Mr. Bitensky, Chairman of the Board of Directors and Chief Executive Officer of [the Company](#).
- (4) Ms. Susan B. Lerner is former Corporate Counsel of [the Company](#). She was Corporate Counsel from 1995 to 2002, Assistant Secretary of [the Company](#) from May 1997 until May 2001 and Secretary of [the Company](#) from May 2001 until March 2002. From 1993 to 1995, she was president of [the Company](#)'s Raval Lace Division. Ms. Lerner is the daughter of Mr. Bitensky, Chairman of the Board of Directors and Chief Executive Officer of the Company.
- (5) Since 1979, Mr. Richard Marlin has been a member of the law firm of Kramer Levin Naftalis & Frankel LLP.
- (6) Mr. Lawrence H. Bober is a retired Vice Chairman of the Board of First New York Business Bank Corp. ("FNYBBC") and of First New York Bank for Business (formerly, The First Women's Bank), a commercial bank and wholly-owned subsidiary of FNYBBC, where he served from January 1988 until January 1991. Prior to 1988 and for more than five years, Mr. Bober was a Senior Vice President of Manufacturers Hanover Trust Company, a commercial bank.
- (7) Mr. Martin B. Bernstein has been Chairman of Bedford Capital Corporation ("BCC") since July 31, 2001. BCC is a private equity company, engaged in the acquisition of a variety of businesses. Mr. Bernstein was also the Chief Executive Officer of Ponderosa Fibres of America, Inc. ("PFAI") from

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1979 to 2001. PFAI is a member of a limited liability company or a stockholder of a corporation that are partners of two partnerships which have been reorganized under Chapter XI in fiscal 1999. PFAI filed a Chapter XI proceeding in May of 2001. Thereafter, its assets were sold and it has ceased operations. Mr. Bernstein is a member of the Board of Directors of Empire Insurance Company and Allcity Insurance Company.

EXECUTIVE OFFICERS

The following table sets forth certain information concerning our executive officers as of May 1, 2005.

[\[Enlarge/Download Table\]](#)

NAME	AGE	POSITIONS AND OFFICES
----	---	-----
Samson Bitensky.....	85	Chairman of the Board of Directors and Chief Executive Officer
Steven Myers.....	56	President, Chief Operating Officer and Director
David A. Miller.....	67	Vice President-Finance, Treasurer, and Chief Financial Officer
Jerry Deese.....	53	Vice President-Controller of Plant Operations
Sam Hiatt	58	Vice President-Sales

Each of our executive officers serves at the pleasure of the Board of Directors and until his or her successor is duly elected and qualified.

SAMSON BITENSKY was one of Fab's founders in 1966 and has served as Chairman of the Board of Directors and Chief Executive Officer of Fab since such time. Mr. Bitensky also served as President of Fab from 1970 until May 1, 1997.

STEVEN MYERS, an attorney, has been employed by Fab in various senior administrative and managerial capacities since 1979. He served as Vice President - Sales for more than five years prior to May 1988 and as Vice President from May 1988 to May 1, 1997 and Co-President, Chief Operating Officer from May 1, 1997 to November 27, 2001. On November 27, 2001, he became President, Chief Operating Officer upon the retirement of our former Co-President, Stanley August. Mr. Myers is the son-in-law of Mr. Bitensky.

DAVID A. MILLER has been employed by Fab since 1966 and has served as Controller from 1973 until December 7, 1995, as Vice President - Finance and Treasurer since December 7, 1995, and as Chief Financial Officer since May 1, 1997.

JERRY DEESE has been employed by Fab in various senior administrative and managerial capacities since 1978. Mr. Deese served as Divisional Controller from 1994 until 1998 and has served as Vice President-Controller of Plant Operations since May 12, 1998.

SAM HIATT has been employed by Fab since 1978 and previously had various management responsibilities in the warp knit area. He has served as Vice President-Sales since May 12, 1998.

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AUDIT COMMITTEE AND AUDIT COMMITTEE FINANCIAL EXPERT.

The Company has an audit committee (the "Audit Committee") composed of Messrs. Bober and Marlin. The Board of Directors has determined that Mr. Bober is an "audit committee financial expert" (as defined by the rules and regulations of the Securities and Exchange Commission). Mr. Bober qualifies as an audit committee financial expert as a result of his business experience described under the heading "*Directors and Executive Officers - Directors*." The Board of Directors has determined that Mr. Bober is independent pursuant to the American Stock Exchange's (the "AMEX") listing standards as they relate to audit committee members.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's directors, executive officers and persons who own more than ten percent of the Common Stock to file reports of ownership and changes in ownership on Forms 3, 4 and 5 with the SEC. Directors, executive officers and greater than ten percent stockholders are required by SEC regulations to furnish the Company with copies of all Forms 3, 4 and 5 that they file.

The Company believes that all of its directors, executive officers, and greater than ten percent beneficial owners complied with all filing requirements applicable to them in the fiscal year 2004.

CODE OF CONDUCT AND ETHICS

The Company has not yet adopted a code of conduct and ethics that applies to the Company's principal executive officer, principal financial officer and principal accounting officer. The Company does not intend to do in light of the fact that the Company will be transferred to a liquidated trust pursuant to the Plan by May 30, 2005.

ITEM 11. EXECUTIVE COMPENSATION.

The Summary Compensation Table shown below sets forth certain information concerning the annual and long-term compensation for services in all capacities to the Company for the 2004, 2003 and 2002 fiscal years of those persons (the "*named executive officers*") who were (i) the Chief Executive Officer during fiscal 2004 and (ii) the other four most highly-compensated executive officers of the Company who were serving as executive officers at the end of the fiscal year ended November 27, 2004.

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SUMMARY COMPENSATION TABLE

ANNUAL COMPENSATION

[\[Enlarge/Download Table\]](#)

NAME AND PRINCIPAL POSITION	YEAR	SALARY (\$) (1)	BONUS (\$)	ALL OTHER COMPENSATION (\$) (2)
Samson Bitensky	2004	350,000	--	6,000
Chairman of the Board of Directors and	2003	350,000	--	5,100
Chief Executive Officer	2002	350,000	--	5,100
Steven Myers	2004	227,000	--	6,000
President and Chief Operating Officer	2003	225,750	--	5,100
	2002	212,000	5,000	5,100
Sam Hiatt	2004	211,000	--	6,000
Vice President-Sales	2003	209,750	--	5,100
	2002	196,000	5,000	5,100
David A. Miller	2004	143,000	--	4,290
Vice President, Finance, Treasurer and	2003	142,583	--	4,290
Chief Financial Officer	2002	138,000	5,000	4,140
Jerry Deese	2004	150,000	5,000	4,500
Vice President, Controller of Plant	2003	148,750	5,000	4,500
Operations	2002	135,000	5,000	4,050

(1) Includes compensation deferred pursuant to [the Company's](#) qualified 401K Money Option Savings Plan.

(2) Represents the amount of [the Company's](#) contribution under its Executive Retirement Plan for Messrs. Bitensky, Myers and Hiatt and the Fab Industries, Inc. Profit Sharing Plan for Messrs. Miller and Deese.

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OPTION/SAR GRANTS IN LAST FISCAL YEAR

The Company did not make any individual grants of stock options or stock appreciation rights during fiscal 2004 to any of the named executive officers.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR AND FISCAL YEAR-END OPTION VALUES

No named executive officer exercised options during fiscal 2004 nor held any options to purchase shares of Common Stock as of November 27, 2004.

COMPENSATION OF DIRECTORS

During fiscal 2004, the directors who were not employees of the Company earned the following annual directors fees: \$22,000 to Mr. Bober; \$17,000 each to Messrs. Bernstein and Marlin; \$14,500 to Mr. Frank Greenberg; \$11,000 to Ms. Lerner. In addition, each non-employee director earned a fee of \$1,000 for each Audit Committee meeting that they attended (other than Executive Committee meetings). No additional fee was paid for service on committees of the Board of Directors.

EMPLOYMENT AGREEMENT

The Company has only one employment agreement with a named executive officer. Mr. Bitensky entered into an employment agreement with the Company effective April 1, 1993, pursuant to which he is to perform the duties of its Chief Executive Officer. The agreement provided it would expire on March 31, 1998, subject to automatic successive one year renewals unless either party terminates on notice given not less than six months prior to the then expiration date. The current expiration date is March 31, 2006. The agreement provides for an annual base salary of \$350,000, or such greater amount as the Board of Directors may from time to time determine, and incentive compensation if the Company's annual pre-tax income exceeds \$10,000,000 equal to 3% of the Company's annual pre-tax income up to \$11,000,000 and 4% of such pre-tax income in excess of \$11,000,000. In the event of disability (as defined in the employment agreement), compensation at the above rate is payable for the first year, and at one-half such rate for the second year of such disability. Upon termination of full-time employment other than by the Company for cause, Mr. Bitensky will be retained to provide advisory and consulting services for a period of five years for a fee of \$250,000 per annum. In the event of the death of Mr. Bitensky while employed or providing such consulting services, an amount equal to the average one year total annual compensation paid to Mr. Bitensky, based upon the three most recent full-time employment years, is payable to his beneficiaries over a five-year period.

The Company and Mr. Bitensky amended the Employment Agreement between the Company and Mr. Bitensky to provide that at such time as the Company is sold or liquidated pursuant to the Plan of Liquidation and Dissolution, in lieu of the annual consulting fees due under such agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such an agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment as determined by the Board of Directors. The Employment Agreement was further amended to eliminate Mr. Bitensky's right under the terms of the original agreement to require the Company to purchase upon his death approximately \$10,000,000 of shares of common stock from his estate. In consideration of Mr. Bitensky relinquishing such right, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS.

The following table sets forth certain information as of May 4, 2005 (except as noted below) as to the shares of Common Stock beneficially owned by each person known by the Company to be the beneficial owner of more than five percent (5%) of the outstanding Common Stock.

NAME AND ADDRESS OF BENEFICIAL OWNER	NUMBER OF SHARES BENEFICIALLY OWNED (1)	PERCENT OF OUTSTANDING COMMON STOCK
----- <u>Samson Bitensky</u> (2) c/o Fab Industries, Inc. 200 Madison Avenue <u>New York, New York 10016</u>	1,488,276(3)	28.5%
Private Capital Management, L.P., Bruce S. Sherman Gregg J. Powers(4) 8889 Pelican Bay Blvd. <u>Naples, Florida 34108</u>	764,196	14.7%
Dimensional Fund Advisors Inc.(5) 1299 Ocean Avenue, 11th Floor <u>Santa Monica, California 90401</u>	305,081	5.9%
FMR Corporation((6)) 82 Devonshire Street <u>Boston, Massachusetts 02109</u>	521,100	10.0%
Salvatore Muoio((7)) S. Muoio & Co. LLC c/o 509 Madison Avenue - Suite 406 <u>New York, New York 10022</u>	262,200	5.0%

- (1) Except as otherwise indicated below, each of the persons listed in the table owns the shares of Common Stock opposite his or its name and has sole voting and dispositive power with respect to such shares of Common Stock.
- (2) Under the rules and regulations of the SEC, Mr. Bitensky may be deemed a "control person" of the Company.
- (3) Includes 74,000 shares of Common Stock owned by the Halina and Samson Bitensky Foundation, Inc. and 89,996 shares of Common Stock owned by Mr. Bitensky's spouse. Mr. Bitensky disclaims beneficial ownership of the shares owned by his spouse and by the Halina and Samson Bitensky Foundation, Inc.

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- (4) Bruce S. Sherman is Chief Executive Officer of Private Capital Management, L.P., a Florida limited partnership ("PCM"), and exercises shared voting and dispositive power with respect to 764,196 shares of Common Stock held by PCM on behalf of its clients. Gregg J. Powers is President of PCM and exercises shared voting and dispositive power with respect to 764,196 shares of Common Stock held by PCM on behalf of its clients. Messrs. Sherman and Powers disclaim beneficial ownership for the shares held by PCM's clients and disclaim the existence of a group. This information is derived solely from PCM's Schedule 13G, as amended, filed with the Commission on February 14, 2005.
- (5) Dimensional Fund Advisors Inc., a Delaware corporation ("Dimensional") and an investment advisor registered under Section 203 of the Investment Advisers Act of 1940, furnishes investment advice to four investment companies registered under the Investment Advisers Act of 1940 and serves as investment manager to certain other investment vehicles, including commingled group trusts and separate accounts. In its role as investment advisor or manager, Dimensional possesses voting and/or investment power over the shares of Common Stock that are owned by these investment companies and investment vehicles. Dimensional disclaims beneficial ownership of all such shares. This information is derived solely from Dimensional's Schedule 13G, as amended, filed with the Commission on February 9, 2005.
- (6) FRM Corp., a Delaware corporation ("FMR"), is the parent holding company of Fidelity Management & Research Company, an investment advisor registered under Section 203 of the Investment Advisers Act of 1940 ("Fidelity"). Fidelity furnishes investment advice to various investment companies registered under the Investment Advisers Act of 1940. In its role as investment advisor, Fidelity possesses voting and/or investment power over the shares of Common Stock that are owned by these investment companies. This information is derived solely from FMR's Schedule 13G filed with the Commission on February 14, 2005.
- (7) S. Muoio & Co. LLC, a Delaware limited liability company ("SMC"), possesses shared voting and dispositive power over 262,200 shares of Common Stock that are held by various investment vehicles and managed accounts for which SMC serves as general partner and/or investment manager. Salvatore Muoio, as the managing member of SMC, possesses shared voting and dispositive power over 262,200 shares of Common Stock. This information is derived solely from FMR's Schedule 13G filed with the Commission on August 19, 2004.

SECURITY OWNERSHIP OF MANAGEMENT AND DIRECTORS

The following table sets forth certain information as of May 4, 2005 as to the shares of Common Stock beneficially owned by the Company's directors, the named executive officers and the directors and executive officers of the Company as a group.

[Enlarge/Download Table]

NAME OF BENEFICIAL OWNER	SHARES OF COMMON STOCK BENEFICIALLY OWNED ON THE RECORD DATE (1)		PERCENT OF OUTSTANDING COMMON STOCK
Samson Bitensky	1,488,276(2)		28.5%
Martin B. Bernstein	3,744		*
Lawrence H. Boher	3,076		*
Susan B. Lerner	64,514		1.2%
Richard Marlin	500		*
Steven Myers	92,556(3)		1.8%
Sam Hiatt	4,243		*
Jerry Deese	9,579		*
David A. Miller	9,536		*
All directors and executive officers as a group (9 persons)	1,676,024		32.1%

* Less than 1%

- (1) Except as otherwise indicated below, each of the persons listed in the table owns the shares of Common Stock opposite his or her name and has sole voting and dispositive power with respect to the shares of Common Stock indicated as being beneficially owned by him or her.
- (2) See note 3 to the table set forth above under the heading "Security Ownership of Certain Beneficial Owners" with respect to beneficial ownership of these shares.

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- (3) Includes 48,370 shares of Common Stock owned by Beth B. Myers; 3,332 shares owned by Jessica C. Myers in a custodial account under control of Beth B. Myers; and 2,000 shares owned by Allison R. Myers in a custodial account under the control of Beth B. Myers. Beth B. Myers is the daughter of Mr. Bitensky, Chief Executive Officer of [the Company](#), and the spouse of Steven Myers, President and Chief Operating Officer of [the Company](#). Jessica C. Myers and Allison R. Myers are the minor daughters of Mr. and Mrs. Myers. Mr. Myers disclaims beneficial ownership of the shares owned by his spouse and minor daughters.

EQUITY COMPENSATION PLAN INFORMATION

As of November 27, 2004, there were no options to purchase common stock outstanding or available for grant under any Company stock option plans. All Company stock option plans have been terminated.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

There were no relationships or related transactions required to be reported under this Item 13.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

AUDIT FEES

For the fiscal years ended November 29, 2003 and November 27, 2004, BDO Seidman, LLP ("BDO"), [the Company](#)'s principal accountant, billed [the Company](#) \$100,000 and \$110,000, respectively, for professional services rendered in connection with the audit of [the Company](#)'s financial statements included in the Company's Annual Report on Form 10-K for such fiscal years. The amount of fees that BDO billed for the review of the financial statements included in the Company's Forms 10-Q for the fiscal years ended November 29, 2003 and November 27, 2004 was \$12,000.

AUDIT-RELATED FEES

BDO did not bill [the Company](#) during fiscal 2003 or 2004 for any assurance and related services reasonably related to their performance of the audit or review of [the Company](#) that are not reported under "Audit Fees."

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TAX FEES

In addition to the audit fees, [the Company](#) was billed \$8,500 by BDO in fiscal 2004 for professional services rendered for tax compliance, tax advice and tax planning in connection with the review of [the Company's](#) 2003 tax returns. [The Company](#) also expects to be billed by BDO in fiscal 2005 for professional services rendered for tax compliance, tax advice and tax planning in connection with the review of [the Company's](#) 2004 tax returns in addition to the audit fees.

ALL OTHER FEES

BDO did not bill [the Company](#) for any other fees in fiscal 2003 and 2004 other than those set for above.

PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee pre-approves all audit and permissible non-audit services provided by the independent auditors. These services may include audit services, audit-related services, tax services and other services.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

- (a) (1) Financial Statements: See the Index to Consolidated Financial Statements at page F-2.
- (2) Financial Statement Schedules: See the Index to Consolidated Financial Statements Schedules at page S-2.
- (3) Exhibit List

EXHIBIT	DESCRIPTION OF EXHIBIT
3.1	- Restated <u>Certificate of Incorporation</u> , <u>incorporated by reference</u> to Exhibit 3.1 to <u>the Company's</u> Annual Report on Form 10-K for the fiscal year ended <u>November 27, 1993</u> (the "1993 10-K").
3.2	- Amended and Restated <u>By-laws</u> , <u>incorporated by reference</u> to Exhibit 3.2 to the 1993 10-K.
3.3	- Certificate of Amendment of Restated Certificate of Incorporation, <u>incorporated by reference</u> to Exhibit 3.3 to the Company's Annual Report on Form 10-K for the fiscal year ended <u>December 3, 1994</u> (the "1994 10-K").
3.4	- Amendments to the Amended and Restated <u>By-laws</u> , incorporated by reference to Exhibit 3.4 of <u>the Company's</u> Annual Report on Form 10-K for the fiscal year ended <u>November 29, 1997</u> .
3.5	- Amendment to the Amended and Restated <u>By-laws</u> , incorporated by reference to Exhibit 3.5 of <u>the Company's</u> Annual Report on Form 10-K for the fiscal year ended <u>November 27, 1999</u> .
4.1	- Specimen of Common Stock Certificate, <u>incorporated by reference</u> to Exhibit 4-A to Registration Statement No. 2-30163, filed on November 4, 1968.
4.2	- <u>Rights Agreement</u> dated as of June 6, 1990 between <u>the Company</u> and Manufacturers Hanover Trust Company, as Rights Agent, which includes as Exhibit A the form of Rights Certificate and as Exhibit B the Summary of Rights to purchase Common Stock, <u>incorporated by reference</u> to Exhibit 4.2 to the 1993 10-K.
4.3	- Amendment to the <u>Rights Agreement</u> between <u>the Company</u> and Manufacturers Hanover Trust Company dated as of May 24, 1991, <u>incorporated by reference</u> to Exhibit 4.3 to the 1993 10-K.
10.1	- Employment Agreement dated as of <u>March 1, 1993</u> , between the Company and <u>Samson Bitensky</u> , <u>incorporated by reference</u> to Exhibit 10.2 to the 1993 10-K.

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EXHIBIT	DESCRIPTION OF EXHIBIT
10.2	- Fab Industries, Inc. Hourly Employees Retirement Plan (the "Retirement Plan"), <u>incorporated by reference</u> to Exhibit 10.3 to the 1993 10-K.
10.3	- Amendment to the Retirement Plan effective December 11, 1978, <u>incorporated by reference</u> to Exhibit 10.4 to the 1993 10-K.
10.4	- Amendment to the Retirement Plan effective December 1, 1981, <u>incorporated by reference</u> to Exhibit 10.5 to the 1993 10-K.
10.5	- Amendment to the Retirement Plan dated November 21, 1983, <u>incorporated by reference</u> to Exhibit 10.6 to the 1993 10-K.
10.6	- Amendment to the Retirement Plan dated August 29, 1986, <u>incorporated by reference</u> to Exhibit 10.7 to the 1993 10-K.
10.7	- Amendment to the Retirement Plan effective as of December 1, 1989, <u>incorporated by reference</u> to Exhibit 10.8 to the 1993 10-K.
10.8	- Amendment to the Retirement Plan dated <u>September 21, 1995</u> , <u>incorporated by reference</u> to Exhibit 10.9 to <u>the Company's</u> Annual Report on Form 10-K for the fiscal year ended <u>December 2, 1995</u> (the "1995 10-K").
10.9	- Fab Lace, Inc. Employees Profit Sharing Plan (the " <u>Profit Sharing Plan</u> "), <u>incorporated by reference</u> to Exhibit 10.9 to the 1993 10-K.
10.10	- Amendment to the Profit Sharing Plan effective December 1, 1978, <u>incorporated by reference</u> to Exhibit 10.10 to the 1993 10-K.
10.11	- Amendment dated December 1, 1985 to the Profit Sharing Plan, <u>incorporated by reference</u> to Exhibit 10.11 to the 1993 10-K.
10.12	- Amendment dated February 5, 1987 to the Profit Sharing Plan, <u>incorporated by reference</u> to Exhibit 10.12 to the 1993 10-K.
10.13	- Amendment dated December 24, 1987 to the Profit Sharing Plan, <u>incorporated by reference</u> to Exhibit 10.13 to the 1993 10-K.
10.14	- Amendment dated June 30, 1989 to the Profit Sharing Plan, <u>incorporated by reference</u> to Exhibit 10.14 to the 1993 10-K.
10.15	- Amendment dated February 1, 1991 to the Profit Sharing Plan, <u>incorporated by reference</u> to Exhibit 10.15 to the 1993 10-K.
10.16	- Amendment dated <u>September 1, 1995</u> to the Profit Sharing Plan, <u>incorporated by reference</u> to Exhibit 10.17 to the 1995 10-K.
10.17	- Lease dated as of December 8, 1988 between Glockhurst Corporation, N.V. and <u>the Company</u> , <u>incorporated by reference</u> to Exhibit 10.16 to the 1993 10-K.

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EXHIBIT	DESCRIPTION OF EXHIBIT
10.18	- Lease Modification Agreement dated April 2, 1991 between Glockhurst Corporation, N.V. and <u>the Company</u> , incorporated by reference to Exhibit 10.17 to the 1993 10-K.
10.19	- Second Lease Modification Agreement dated May 23, 1996 between 200 Madison Associates, L.P. and <u>the Company</u> , incorporated by reference to Exhibit 10.20 to <u>the Company's</u> Annual Report on Form 10-K for the fiscal year ended November 30, 1996.
10.20	- Third Lease Modification Agreement dated April 24, 2000 between 200 Madison Associates, L.P. and <u>the Company</u> , incorporated by reference to Exhibit 10.21 to <u>the Company's</u> Annual Report on Form 10-K for the fiscal year ended November 30, 2001.
10.21	- Fourth Lease Modification Agreement dated April 11, 2002 between 200 Madison Associates, L.P. and <u>the Company</u> , incorporated by reference to Exhibit 10.22 to <u>the Company's</u> Annual Report on Form 10-K for the fiscal year ended November 30, 2002.
10.22	- Lease dated as of March 1, 1979 between City of Amsterdam Industrial Development Agency and Gem Urethane Corp., <u>incorporated by reference</u> to Exhibit 10.18 to the 1993 10-K.
10.23	- Lease dated as of January 1, 1977 between City of Amsterdam Industrial Development Agency and Lamatronics Industries, Inc., <u>incorporated by reference</u> to Exhibit 10.19 to the 1993 10-K.
10.24	- Form of indemnification agreement between <u>the Company</u> and its officers and directors, <u>incorporated by reference</u> to Exhibit 10.20 to the 1993 10-K.
10.25	- Fab Industries, Inc. Employee Stock Ownership Plan effective as of Nov. 25, 1991, <u>incorporated by reference</u> to Exhibit 10.24 to the 1993 10-K.
10.26	- Amendment dated September 21, 1995 to the Employee Stock Ownership Plan, <u>incorporated by reference</u> to Exhibit 10.27 to the 1995 10-K.
10.27	- Fab Industries, Inc. Non-Qualified Executive Retirement Plan dated as of November 30, 1990, <u>incorporated by reference</u> to Exhibit 10.25 to the 1993 10-K.
10.28	- Form of loan agreement, dated May 30, 2002, entered into between Fab Industries, Inc. and certain of its executive officers and directors, <u>incorporated by reference</u> to Exhibit 10.31 to the Company's Annual Report on Form 10-K for the fiscal year ended November 30, 2002.
10.29	- Amendment dated July 25, 2003 to the Employment Agreement between Fab Industries, Inc. and Samson Bitensky, incorporated by reference to Exhibit 10.1 to <u>the Company's</u> Quarterly Report on Form 10-Q filed for the quarter ended August 30, 2003.

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EXHIBIT	DESCRIPTION OF EXHIBIT
21	- <u>Subsidiaries of the Company</u> , incorporated by reference to Exhibit 21 to <u>the Company's</u> Annual Report on Form 10-K for the fiscal year ended <u>December 2, 2000</u> .
*31.1	- Certification of <u>Samson Bitensky</u> pursuant to Section 302 of the Sarbanes-Oxley Act.
*31.2	- Certification of <u>David A. Miller</u> pursuant to Section 302 of the Sarbanes-Oxley Act.
*32.1	- Certification of <u>Samson Bitensky</u> pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.
*32.2	- Certification of <u>David A. Miller</u> pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.

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FAB INDUSTRIES, INC.
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
FORM 10-K ITEM 8
FISCAL YEARS ENDED NOVEMBER 27, 2004, NOVEMBER 29, 2003 AND
NOVEMBER 30, 2002

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FAB INDUSTRIES, INC. AND SUBSIDIARIESCONTENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
 Fab Industries, Inc.
 New York, New York

We have audited the accompanying statement of net assets in liquidation of Fab Industries, Inc. and subsidiaries as of November 27, 2004, and the related statement of changes in net assets in liquidation for the one day period ended November 27, 2004. We have also audited the consolidated balance sheet of Fab Industries, Inc. and subsidiaries as November 29, 2003, and the related consolidated statements of operations, stockholders' equity and cash flows for the period from November 30, 2003 to November 26, 2004 and for the fiscal years ended November 29, 2003 and November 30, 2002. We have also audited the financial statement schedules listed in the index on page S-1. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and schedules are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedules, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

As discussed in the summary of accounting policies, on March 1, 2002, the Company's Board of Directors adopted resolutions, which authorize, subject to shareholder approval, the sale of the business pursuant to a plan of liquidation. The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002, which requires the transfer of assets and liabilities of the Company to a liquidating trust of May 30, 2005. As a result of the Company's liquidation on May 30, 2005, the Company has changed its basis of accounting for periods subsequent to November 26, 2004, from the going concern basis to the liquidation basis.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the net assets in liquidation of Fab Industries, Inc. and subsidiaries at November 27, 2004, and changes in net assets in liquidation for the one day period ended November 27, 2004. In addition, in our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Fab Industries, Inc. and subsidiaries as of November 29, 2003, and the results of their operations and their cash flows for the period from November 30, 2003 to November 26, 2004 and for the fiscal years ended November 29, 2003 and November 30, 2002 in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedules presents fairly, in all material respects, the information set forth therein.

As described in Note 17 to the consolidated financial statements, the accompanying consolidated financial statements as of November 29, 2003 has been restated.

/s/ BDO Seidman, LLP

BDO Seidman, LLP
 New York, New York
 April 29, 2005

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

STATEMENT OF NET ASSETS IN LIQUIDATION

ASSETS:	<u>NOVEMBER 27, 2004</u>
Cash and cash equivalents	\$ 639,000
Investment securities available-for-sale	19,255,000
Accounts receivable	7,057,000
Inventories	1,517,000
Other assets	3,034,000
Property, plant and equipment	6,082,000
TOTAL ASSETS	37,584,000
LIABILITIES:	
Accounts payable	3,570,000
Corporate income and other taxes	819,000
Accrued payroll and related expenses	983,000
Other liabilities	3,636,000
Estimated cost of liquidation	11,589,000
TOTAL LIABILITIES	20,597,000
Net assets in liquidation	\$16,987,000

SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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FAB INDUSTRIES, INC.
AND SUBSIDIARIES

STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION

=====

PERIOD FROM NOVEMBER 26, 2004 THRU NOVEMBER 27, 2004

Net assets in liquidation at <u>November 26, 2004</u>	\$16,987,000

Net assets in liquidation at <u>November 27, 2004</u>	\$16,987,000

SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEET

		NOVEMBER 29, 2003
		(Restated)
ASSETS		
CURRENT:		
Cash and cash equivalents	\$	3,397,000
Investment securities available-for-sale		29,004,000
Accounts receivable, net of allowance of \$1,100,000 for doubtful accounts		7,171,000
Inventories		5,531,000
Deferred income taxes		506,000
Other current assets		701,000
TOTAL CURRENT ASSETS		46,310,000
PROPERTY, PLANT AND EQUIPMENT - NET		9,192,000
OTHER ASSETS		2,281,000
		\$57,783,000
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT:		
Accounts payable	\$	1,913,000
Corporate income and other taxes		861,000
Accrued payroll and related expenses		763,000
Other current liabilities		1,106,000
TOTAL CURRENT LIABILITIES		4,643,000
DEFERRED INCOME TAXES		52,000
OTHER NONCURRENT LIABILITIES		4,451,000
TOTAL LIABILITIES		9,146,000
COMMITMENTS AND CONTINGENCIES (NOTES 7 AND 9)		--
STOCKHOLDERS' EQUITY:		
Preferred stock, \$1 par value - shares authorized 2,000,000; none issued		--
Common stock, \$.20 par value - shares authorized 15,000,000; issued 6,724,944		1,345,000
Retained earnings		84,933,000
Accumulated other comprehensive (loss)		(186,000)
Cost of common stock held in treasury - 1,509,913		(37,455,000)
TOTAL STOCKHOLDERS' EQUITY		48,637,000
		\$57,783,000

SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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FAB INDUSTRIES, INC.
AND SUBSIDIARIES

[Enlarge/Download Table]

CONSOLIDATED STATEMENTS OF OPERATIONS

	NOVEMBER 30, 2003 THROUGH NOVEMBER 26, 2004	FISCAL YEAR ENDED NOVEMBER 29, 2003	NOVEMBER 30, 2002
NET SALES	\$49,660,000	\$51,173,000	\$62,965,000
COST OF GOODS SOLD	44,742,000	46,910,000	56,412,000
GROSS PROFIT	4,918,000	4,255,000	6,553,000
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	6,657,000	6,420,000	8,189,000
ASSET IMPAIRMENT AND RESTRUCTURING CHARGES	615,000	685,000	--
OTHER EXPENSES	226,000	1,659,000	750,000
GAIN ON SALE OF FIXED ASSETS	(1,073,000)	(427,000)	(817,000)
OPERATING LOSS	(1,507,000)	(4,090,000)	(1,569,000)
OTHER INCOME (EXPENSE):			
Interest and dividend income	641,000	1,279,000	2,413,000
Interest expense	--	--	(13,000)
Net gain on investment securities	759,000	1,266,000	2,179,000
TOTAL OTHER INCOME	1,400,000	2,545,000	4,579,000
INCOME (LOSS) BEFORE TAXES ON INCOME	(107,000)	(1,545,000)	3,010,000
INCOME TAX EXPENSE (BENEFIT)	(35,000)	(175,000)	1,040,000
NET INCOME (LOSS)	\$ (72,000)	\$ (1,370,000)	\$ 1,970,000
EARNINGS (LOSS) PER SHARE:			
Basic	\$ (.01)	\$ (.26)	\$.38
Diluted	\$ (.01)	\$ (.26)	\$.38
CASH DIVIDENDS DECLARED PER SHARE	\$ 3.00	\$ 4.00	\$ 10.00

SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

[\[Enlarge/Download Table\]](#)

COMMON STOCK					
	TOTAL	NUMBER OF SHARES	AMOUNT	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS (RESTATED - SEE SUMMARY OF ACCOUNTING POLICIES)
Balance, <u>December 1, 2001</u> , as previously reported	\$113,503,000	6,591,944	\$1,319,000	\$6,967,000	\$144,224,000 (\$3,957,000)
Restatement adjustment (See Note 17)	(292,000)	--	--	--	(292,000)
Balance, <u>December 1, 2001</u> , as restated	113,211,000	6,591,944	1,319,000	6,967,000	143,932,000 3,957,000
Net loss-- fiscal 2002	1,970,000	--	--	--	1,970,000
Minimum pension liability adjustment of \$164,000, net of tax benefit of \$59,000	(105,000)	--	--	--	--
Total comprehensive loss	1,865,000	--	--	--	--
Cash dividends	(52,380,000)	--	--	(6,641,000)	(45,739,000)
Acceleration of stock options (Note 6)	418,000	--	--	418,000	--
Exercise of stock options (Note 6)	1,445,000	133,000	26,000	1,640,000	--
Purchase of treasury stock	(280,000)	--	--	17,000	--
P Termination of Employee Stock Ownership Plan	--	--	--	(2,401,000)	3,957,000
Balance, November 30, 2002	64,279,000	6,724,944	1,345,000	--	100,163,000
Net loss - fiscal 2003	(1,370,000)	--	--	--	(1,370,000)
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	(223,000)	--	--	--	--
Minimum pension liability of \$300,000 net of tax benefit of \$108,000	(192,000)	--	--	--	--
Total comprehensive loss	(1,785,000)	--	--	--	--
Cash dividends	(20,860,000)	--	--	--	(20,860,000)
Repayment of notes receivable from stockholders	221,000	--	--	--	--
Purchase of treasury stock	(218,000)	--	--	--	--
Reclass of redeemable common stock to non redeemable common stock	7,000,000	--	--	--	7,000,000
Balance, November 29, 2003	48,637,000	6,724,944	1,345,000	--	84,933,000
Net loss - fiscal 2004	(72,000)	--	--	--	(72,000)
Change in net unrealized holding loss on investment securities available-for-sale, net of taxes	(193,000)	--	--	--	--
Minimum pension liability of \$50,000 net of tax benefit of \$18,000	(32,000)	--	--	--	--
Total comprehensive loss	(297,000)	--	--	--	--
Cash dividends	(15,645,000)	--	--	--	(15,645,000)
Balance, <u>November 30, 2004</u>	\$32,695,000	6,724,944	\$1,345,000	--	\$69,216,000

[\[Download Table\]](#)

TREASURY STOCK

	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	NUMBER OF SHARES	NOTES RECEIVABLE FROM COST STOCKHOLDERS
Balance, <u>December 1, 2001</u> , as previously reported	\$ 334,000	(1,383,574)	\$(35,384,000) \$--
Restatement adjustment (See Note 17)	--	--	--
Balance, <u>December 1, 2001</u> , as restated	334,000	(1,383,574)	(35,384,000) --
Net loss-- fiscal 2002	--	--	--
Minimum pension liability adjustment of \$164,000, net of tax benefit of \$59,000	(105,000)	--	--
Total comprehensive loss	--	--	--
Cash dividends	--	--	--
Acceleration of stock options (Note 6)	--	--	--
Exercise of stock options (Note 6)	--	--	--
Purchase of treasury stock	--	(16,899)	(297,000)
P Termination of Employee Stock Ownership Plan	--	(86,456)	(1,556,000)
Balance, November 30, 2002	229,000	(1,486,929)	(37,237,000) (221,000)
Net loss - fiscal 2003	--	--	--
Change in net unrealized holding gain on investment securities available-for-sale, net of taxes	(223,000)	--	--
Minimum pension liability of \$300,000 net of tax benefit of \$108,000	(192,000)	--	--

Total comprehensive loss	--	--	--	--
Cash dividends	--	--	--	--
Repayment of notes receivable from stockholders	--	--	--	221,000
Purchase of treasury stock	--	(22,984)	(218,000)	--
Reclass of redeemable common stock to non redeemable common stock	--	--	--	--

Balance, <u>November 29, 2003</u>	(186,000)	(1,509,913)	(37,455,000)	--
Net loss - fiscal 2004	--	--	--	--
Change in net unrealized holding loss on investment securities available-for- sale, net of taxes	(193,000)	--	--	--
Minimum pension liability of \$50,000 net of tax benefit of \$18,000	(32,000)	--	--	--
Total comprehensive loss	--	--	--	--
Cash dividends	--	--	--	--

Balance, <u>November 26, 2004</u>	(411,000)	(1,509,913)	\$(37,455,000)	\$--

SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(NOTE 10)**

[Enlarge/Download Table]

	NOVEMBER 30, 2003 THROUGH NOVEMBER 26, 2004	FISCAL YEAR ENDED NOVEMBER 29, 2003	NOVEMBER 30, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income (loss)	\$ (72,000)	\$ (1,370,000)	\$ 1,970,000
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for doubtful accounts	600,000	400,000	400,000
Depreciation and amortization	1,619,000	1,927,000	2,143,000
Deferred income taxes	(534,000)	214,000	38,000
Non-cash asset impairment and restructuring charges	615,000	685,000	--
Compensation relating to acceleration of stock options	--	--	418,000
Net gain on investment securities	(759,000)	(1,266,000)	(2,179,000)
Gain on disposition of fixed assets	(1,073,000)	(443,000)	(817,000)
Decrease (increase) in:			
Accounts receivable	(1,479,000)	(23,000)	2,720,000
Inventories	423,000	2,885,000	3,949,000
Other current assets	81,000	166,000	750,000
Other assets	87,000	915,000	58,000
Increase (decrease) in:			
Accounts payable	1,657,000	(942,000)	(804,000)
Accruals and other liabilities	(257,000)	198,000	112,000
NET CASH PROVIDED BY OPERATING ACTIVITIES	907,000	3,316,000	8,758,000
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(34,000)	(267,000)	(225,000)
Proceeds from sale of property and equipment	1,828,000	621,000	957,000
Proceeds from sales of investment securities	10,774,000	17,441,000	38,650,000
Acquisition of investment securities	(588,000)	--	--
NET CASH PROVIDED BY INVESTING ACTIVITIES	11,980,000	17,795,000	39,382,000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Purchase of treasury stock	--	--	(280,000)
Dividends	(15,645,000)	(20,860,000)	(52,901,000)
Exercise of stock options	--	--	1,445,000
NET CASH USED IN FINANCING ACTIVITIES	(15,645,000)	(20,860,000)	(51,736,000)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,758,000)	251,000	(3,595,000)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,397,000	3,146,000	6,742,000
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 639,000	\$ 3,397,000	\$ 3,146,000

SEE ACCOMPANYING SUMMARY OF ACCOUNTING POLICIES
AND NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

SUMMARY OF ACCOUNTING POLICIES

BUSINESS

Fab Industries, Inc. (the "Company") is a manufacturer of knitted apparel fabrics, including laces and finished home products, as well as laminated fabrics. The Company's sales are primarily made to United States customers.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002.

The Company engaged the investment banking firm of McFarland Dewey & Co., LLC in November 2002 to assist it with the sale of the Company's business. McFarland Dewey contacted numerous potential acquirers during the course of this eighteen-month process. On October 14, 2003, the Company announced that it had yet to receive any bona-fide offers to acquire the business as a going concern. Following that announcement, on October 23, 2003, the Company received a preliminary offer from a management-led buyout group to acquire the business, as a going concern, for \$3.75 per share. The Company subsequently announced on November 14, 2003, that a stockholder filed a lawsuit, naming as defendants, the Company and each of its directors, seeking class-action certification, preliminary and permanent injunctions against the proposed management-led buyout, and unspecified damages. The preliminary offer from the management-led buyout group was subsequently withdrawn.

The Company continued the auction process following the withdrawal of the management-led buyout group's preliminary offer. On March 10, 2004, the Company paid a \$3.00 per share liquidating distribution. Following this liquidating distribution, the auction process resulted in the Company receiving three non-binding initial indications of interest from unaffiliated third parties, at prices ranging from \$1.50 per share to \$2.25 per share and a non-binding initial indication of interest from SSJJJ (an affiliated company, see below), at a price of \$2.83 per share. A Special Committee of the Company's Board of Directors, comprised solely of independent directors, was formed to evaluate SSJJJ's preliminary indication of interest. After further discussions between the Special Committee and SSJJJ, SSJJJ indicated that it may be willing make a binding offer of \$2.80 per share to purchase the Company's business as a going concern. SSJJJ informed the Special Committee on August 9, 2004, that it would not be making a binding offer at that time to purchase the Company's business. On August 11, 2004, the Company announced that it suspended its formal auction process because it failed to receive a binding offer to purchase the Company's business as a going concern.

The Company announced on March 9, 2005 that it had received a preliminary non-binding indication of interest from SSJJJ Manufacturing Co., Inc., an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ"), to acquire the business, as a going concern, at a price of \$2.80 per share. A Special Committee of the Company's Board of Directors, comprised solely of independent directors, is currently evaluating SSJJJ's preliminary non-binding indication of interest.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

SUMMARY OF ACCOUNTING POLICIES

Under the Plan, if the Company's business is not sold prior to May 30, 2005, the Company will be required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders. If the Company's assets and liabilities are transferred to a liquidating trust on May 30, 2005, the Company's stock transfer books will close and its common stock will be delisted from trading on the AMEX effective on the close of business on May 30, 2005. Thereafter, certificates representing shares of Company common stock will not be assignable or transferable on the books of the Company, except by will, intestate succession or by operation of law. Thus, at such time, it will no longer be possible for the Company's stockholders to publicly trade the Company's stock and the proportionate interests of all of the Company's stockholders will be fixed on the basis of their respective stock holdings at the close of business on May 30, 2005. After such date, any distributions made by the Company will be made solely to the stockholders of record at the close of business on May 30, 2005, except as may be necessary to reflect subsequent transfers recorded on the Company's books from any transfers by will, intestate succession or by operation of law. The interests in any liquidating trust will not be transferable.

There can be no assurance that the Company will be able to sell its business as a going concern, that the Company will be able to liquidate all of its assets prior to May 30, 2005, or that the sale of its business and assets will generate proceeds to the stockholders in an amount equal to or greater than the market price of its stock or the liquidation value of its assets.

Due to the uncertainty as to whether the Company will be sold prior to May 30, 2005, the Company has determined that it is more appropriate to present the Company's financial statements on a liquidation basis. Therefore, the Company changed its basis of accounting to the liquidation basis as of November 27, 2004.

The amount of distributions ultimately available to be made to shareholders upon the final liquidation of the Company may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and actual costs of liquidation.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

SUMMARY OF ACCOUNTING POLICIES

Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts, which approximates the \$16,987,000 net orderly liquidation value. The liquidation values of the Company's receivables, inventory and fixed assets were based on valuations made by an independent valuation company. Included in the liabilities, the Company accrued \$11,589,000 in costs of liquidation representing the estimate of the costs to be incurred during liquidation, however, actual costs could vary from those estimates. Distributions ultimately made to the shareholders upon liquidation will differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and final costs of liquidation.

As a result of the change to the liquidation basis of accounting on November 27, 2004, the Company wrote down assets by \$5,656,000 and recorded additional liabilities relating to costs to liquidate totaling \$10,052,000. The net adjustment as recorded as a reduction to equity of \$15,708,000, resulting in the net assets in liquidation value of \$16,987,000 as of November 27, 2005.

Costs of liquidation including losses to be incurred winding down operations are \$11,589,000, as summarized below:

Compensation and benefits	\$ 6,191,000
Defined benefit pension plan	2,033,000
Legal, audit and tax services	1,250,000
Insurance	450,000
Other costs, including leases, property taxes, utilities, maintenance, repairs, stationery supplies, postage, and security	1,665,000

Total	\$11,589,000
	=====

Certain costs to liquidate have been offset against the related assets (see notes 3 and 4).

Certain of the following policies and footnotes relate to periods prior to the change to the liquidation basis on November 27, 2004.

**PRINCIPLES OF
CONSOLIDATION**

The financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. Significant intercompany transactions and balances have been eliminated.

FISCAL YEAR

The Company's fiscal year ends on the Saturday closest to November 30. Fiscal 2004 includes the period November 30, 2003 through November 26, 2004 on a going concern basis. Fiscal 2003 and 2002 had fifty-two weeks.

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FAB INDUSTRIES, INC.
AND SUBSIDIARIES

SUMMARY OF ACCOUNTING POLICIES

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RISKS AND UNCERTAINTIES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Financial instruments, which potentially subject [the Company](#) to concentrations of credit risk consist principally of cash and cash equivalents, investment securities, and trade receivables. [The Company](#) places its cash and cash equivalents with high credit quality financial institutions. [The Company](#) is subject to credit risk if brokers are unable to repay balances due or deliver securities in their custody. By policy, [the company](#) limits the amount of credit exposure to any one financial institution. [The Company](#) has received confirmation indicating that, with respect to investment securities, each custodian with the exception of one custodian maintains appropriate insurance coverage. During fiscal 2004 and fiscal 2003, that custodian had an average balance of approximately \$6.3 million and \$9.6 million, respectively, of [the Company's](#) cash under investment, which from time to time during such periods was invested entirely in equity securities. At November 27, 2004, that custodian had approximately \$5.9 million of [the Company's](#) cash under investments, with a majority invested in equities. In March 2004, [the Company](#) liquidated \$2.5 million from that custodian as part of the liquidating dividend. The Company's investment policy currently permits up to 50% of [the Company](#) portfolio to be held by the custodian.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

SUMMARY OF ACCOUNTING POLICIES

Concentrations of credit risk with respect to trade receivables are limited due to a diverse group of manufacturers, wholesalers and retailers to whom the Company sells. The Company reviews a customer's credit history before extending credit. The Company further reduces its credit risk by factoring, without recourse, a variable amount of trade receivables. As of November 27, 2004 and November 29, 2003, 18% and 8%, respectively, of the accounts receivable outstanding were due from factors. During fiscal 2004, one customer accounted for approximately 13% of net sales. The receivable from this customer represents approximately 26% of consolidated accounts receivable at November 27, 2004. No single customer accounted for sales greater than 10% of consolidated accounts receivable for the fiscal years 2003 and 2002. No single customer had a net balance due greater than 10% of consolidated accounts receivable at November 29, 2003. Our export sales are not material. The Company's accounts receivable are customer obligations due under normal trade terms and up until November 26, 2004, carried at their face value less an allowance for doubtful accounts.

**ACCOUNTS RECEIVABLE AND ALLOWANCE FOR
DOUBTFUL ACCOUNTS**

The Company's accounts receivable are customer obligations due under normal trade terms and up until November 26, 2004, carried at their face value less an allowance for doubtful accounts.

Up until November 26, 2004 the Company evaluated its accounts receivable on an ongoing basis and established an allowance for doubtful accounts based on specific customer circumstances and on its historical rate of write-offs. The Company included any accounts receivable balances that are determined to be uncollectible, along with a general reserve, in an overall allowance for doubtful accounts. After all attempts to collect a receivable have failed, the receivable is written off against the allowance. The Company believes the allowance for doubtful accounts as of November 26, 2004 is adequate, however, actual write-offs might exceed the recorded allowance. As of November 27, 2004, accounts receivable are valued at net orderly liquidation value determined by an outside independent APPRAISER.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

SUMMARY OF ACCOUNTING POLICIES

CASH EQUIVALENTS

The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents.

INVESTMENTS

The Company follows Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). SFAS No. 115 addresses accounting and reporting for investments in equity securities that have readily determinable fair values and for all investments in debt securities. Investments in such securities are to be classified as held-to-maturity, trading, or available-for-sale up until November 26, 2004. The Company classified all of its investments as available-for-sale. The investments are recorded at their fair value and the unrealized gain or loss, net of income taxes, was recorded in stockholders' equity.

Gains and losses was on sales of investment securities prior to November 27, 2004, are computed using the specific identification method.

INVENTORIES

Up until November 26, 2004, inventories were valued at the lower of cost or market. For a portion of the inventories, cost was determined by the last-in, first-out (LIFO) method with the balance being determined by the first-in, first-out (FIFO) method. Inventories accounted for under the LIFO method are goods for the Apparel segment. Inventories accounted for under the FIFO method are goods manufactured for the Home Furnishing and Accessories and the Other segments. Both methods are not used for similar types of goods. The Company reviewed inventory values on a quarterly basis for items requiring markdowns to lower of cost or market value or due to obsolescence. As of November 27, 2004, inventories are valued at net orderly liquidation value determined by an independent appraiser.

COST OF GOODS SOLD

Cost of goods sold includes labor, purchases, inbound freight charges, receiving costs, warehouse costs and the change in inventory during the period. Excess fixed production costs are not inventoried and are expensed in the period incurred.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

SUMMARY OF ACCOUNTING POLICIES

**SELLING, GENERAL AND
ADMINISTRATIVE EXPENSE**

Selling, general and administrative expenses primarily include costs relating to administrative and salespersons salaries and benefits, bad debt expense, professional and consulting fees, insurance expense and rent for the New York office. In addition, these expenses include compensation expense and an offset to investment income to reflect changes in the fair value of the trading securities held by the nonqualified defined contribution plan, in accordance with EITF 97-14.

REVENUE RECOGNITION

The Company recognizes its revenues upon shipment of related goods. Shipping terms are FOB shipping point pursuant to the Company's sales agreements. Risk of loss transfers to the Company's customers at the time the goods are transferred to a common carrier, per the Company's sales agreements. The acceptance of goods by the customer is not subject to inspection. Allowances for estimated returns are provided when sales are recorded.

**SHIPPING AND
HANDLING COSTS**

Shipping and handling costs billed to customers are recorded as revenue. The costs associated with shipping goods to customers are recorded as the cost of goods sold. The majority of the shipping costs are paid directly by the Company's customers to independent trucking companies.

**DERIVATIVE FINANCIAL
INSTRUMENTS HELD OR
ISSUED**

The Company is party to equity option contracts as part of its investing activities. Option contracts are contractual agreements that give the purchaser the right, but not the obligation, to purchase or sell a financial instrument at a predetermined exercise price. In return for this right, the purchaser pays a premium to the seller of the option. By selling or writing options, the Company receives a premium and becomes obligated during the term of the option to purchase or sell a financial instrument at a predetermined exercise price if the option is exercised, and assumes the risk of not being able to enter into a closing transaction if a liquid secondary market does not exist.

In accordance with SFAS 133, the Company's policy is to recognize all derivatives instruments as either assets or liabilities on the balance sheet at fair value. Changes in fair value are recognized in the income statement in the period in which they occur. Derivatives are not used for trading purposes. Derivatives are used to hedge against fluctuations in the market value of equity securities.

**PROPERTY, PLANT AND
EQUIPMENT**

Up until November 26, 2004, property, plant and equipment was stated at cost. Depreciation was computed using principally the straight-line method. The range of estimated useful lives was 15 to 33 years for buildings and building improvements, 4 to 10 years for machinery and equipment, 10 years for leasehold improvements and 5 years for trucks and automobiles. Depreciation ceases upon any items classification as held for sale. As of November 27, 2004, property, plant and equipment are valued at net orderly liquidation value determined by an outside independent appraiser.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

SUMMARY OF ACCOUNTING POLICIES

LONG-LIVED ASSETS

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell. During fiscal 2004 and fiscal 2003, the Company reviewed assets held for sale and determined an additional impairment charge of \$615,000 and \$685,000, respectively, was required. See Note 12 of the notes to the financial statements. As of November 27, 2004, the Company changed to liquidation basis of accounting.

**RESEARCH AND
DEVELOPMENT COSTS**

Research and development costs are charged to expenses in the year incurred and amounted to \$775,000, \$850,000, and \$1,690,000 in fiscal 2004, 2003 and 2002, respectively.

**ACCOUNTING FOR
STOCK-BASED COMPENSATION**

The Company applied Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its various stock option plans. The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure", which was released in December 2002 as an amendment to SFAS 123. In accordance with SFAS No. 148, the following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123. See Note 6 for disclosure of assumptions utilized in the calculation of fair value. The Company's stock option plans were terminated subsequent to the fiscal year ended November 30, 2002.

[Enlarge/Download Table]

	2004	2003	2002
	(In thousands, except per share data)		
Net Income (loss) as reported	\$ (72)	\$ (1,370)	\$ 1,970
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	--	--	(130)
Pro forma net income (loss)	\$ (72)	\$ (1,370)	\$ 1,840
Basic and diluted net income (loss) per share-As reported	\$ (0.01)	\$ (0.26)	\$ 0.38
Pro forma	\$ (0.01)	\$ (0.26)	\$ 0.35

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

SUMMARY OF ACCOUNTING POLICIES

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TAXES ON INCOME

[The Company](#) follows the liability method of accounting for income taxes. Accordingly, deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and for income tax purposes.

**EARNINGS (LOSS)
PER SHARE**

Basic earnings (loss) per share is based on the weighted average number of common shares outstanding during the fiscal year. Diluted earnings per share is based on the weighted average number of common shares and dilutive potential common shares outstanding during the fiscal year. There were no dilutive potential common shares outstanding in fiscal 2004 and 2003. For fiscal 2002, potentially dilutive securities that related to shares issuable upon the exercise of stock options granted by [the Company](#) were excluded, as their effect was antidilutive. See Note 13 of notes to the financial statements.

RECLASSIFICATIONS

Certain prior fiscal years' accounts have been reclassified for comparative purposes.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at November 27, 2004 and November 29, 2003 consisted of the following (in thousands):

	2004	2003
-----	-----	-----
Cash	\$369	\$549
Taxable and tax-free short-term debt instruments		
	270	2,848
-----	-----	-----
	\$639	\$3,397
=====	=====	=====

2. INVESTMENT SECURITIES

Investment securities available-for-sale at November 27, 2004 and November 29, 2003 consisted of the following (in thousands):

	COST		GROSS UNREALIZED HOLDING GAIN		GROSS UNREALIZED HOLDING LOSS	FAIR VALUE
-----	-----		-----		-----	-----
2004:						
Equities	\$ 6,516	\$	222	\$	(87)	\$ 6,651
U.S. Treasury obligations	11,132		--		(20)	11,112
Corporate bonds	1,591		--		(252)	1,339
Money market	153		--		--	153
-----	-----		-----		-----	-----
	\$ 19,392	\$	222	\$	(359)	\$ 19,255
=====	=====		=====		=====	=====
2003:						
Equities	\$ 750	\$	17	\$	--	\$ 767
U.S. Treasury obligations	27,519		418		--	27,937
Corporate bonds	253		--		(250)	3
Money market	297		--		--	297
-----	-----		-----		-----	-----
	\$ 28,819	\$	435	\$	(250)	\$ 29,004
=====	=====		=====		=====	=====

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The carrying values and approximate fair values of investments in debt securities available-for-sale, at November 27, 2004 and November 29, 2003.

NOVEMBER 27, 2004		NOVEMBER 29, 2003	
Cost	Fair value	Cost	Fair value
\$12,723	\$12,451	\$27,772	\$27,940

Gross and net realized gains and losses on sales of investment securities were:

	2004	2003	2002
Gross realized gains	\$ 1,705	\$ 3,980	\$ 6,653
Gross realized losses	(946)	(2,714)	(4,474)
Net realized gain	\$ 759	\$ 1,266	\$ 2,179

Other comprehensive income (loss) for fiscal 2004, 2003, and 2002 included the following (in thousands):

	2004	2003	2002
Unrealized holding gains arising during the year, net of tax	\$ 262	\$ 537	\$1,307
Reclassification adjustment, net of tax	(455)	(760)	(1,307)
Other comprehensive loss, net of tax	\$ (193)	\$ (223)	--

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FAB INDUSTRIES, INC.
AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During Fiscal 2004, [the Company](#) invested a portion of their securities in equity consisting of a portfolio of Standard and Poor's 100 ("S&P 100") common stocks, the fair value of which varies consistently with changes in the S&P 100 index. To hedge against fluctuations in the market value of the portfolio, [the Company](#) has purchased short-term S&P 100 index put options and sold short-term S&P 100 call options. Although [the Company](#) uses these instruments to hedge against fluctuations in the market value of the securities, [the Company](#) does not maintain adequate documentation for its hedging activities, and therefore does not use hedge accounting. All gains and losses from the use of these instruments are included in the income statement in the period that they occur. At November 27, 2004, [the Company](#) had a majority invested in equities. At November 29, 2003 [the Company](#) had no such investments. [The Company](#) will continue to invest in such equities in the future.

Realized losses on purchased short-term S&P 100 index put options and sold short-term S&P 100 call options during fiscal 2004, 2003, and 2002 were approximately \$(64,000), \$(874,000), and \$(1,463,000), respectively.

[The Company](#) has agreements with various brokerage firms to carry its account as a customer. The brokers have custody of [the Company's](#) securities and, from time to time, cash balances which may be due from these brokers.

These securities and/or cash positions serve as collateral for any amounts due to brokers or as collateral for securities sold short or securities purchased on margin. The securities and/or cash positions also serve as collateral for potential defaults of [the Company](#).

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVENTORIES

Inventories at November 27, 2004 and November 29, 2003 consisted of the following (in thousands, except for percentages):

	NET ORDERLY LIQUIDATION VALUE	COST
	2004	2003
Raw materials	\$ 623	\$ 1,446
Work-in-process	233	1,867
Finished goods	1,486	2,218
	\$ 2,342	\$ 5,531
Less: Estimated costs to liquidate	825	
Net orderly liquidation value	\$ 1,517	
Approximate percentage of inventories valued under LIFO method		61%
Excess of FIFO valuation over LIFO valuation		\$ 1,007

The net orderly liquidation value has been determined by an outside independent appraiser.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at November 27, 2004 and November 29, 2003 consisted of the following (in thousands):

	NET ORDERLY LIQUIDATION VALUE	COST
	2004	2003
Land and improvements	\$ 390	\$ 390
Buildings and improvements	2,205	7,323
Machinery and equipment	3,637	22,255
Trucks and automobiles	--	679
Office equipment	--	287
Leasehold improvements	--	548
Assets held for sale (Note 12)	--	2,013
	6,232	33,495
Less: Accumulated depreciation and amortization	--	24,303
	6,232	\$ 9,192
Less: Estimated costs to liquidate	150	--

	\$ 6,082	

The net orderly liquidation value has been determined by an outside independent appraiser.

5. OBLIGATIONS UNDER CAPITAL LEASES

During fiscal 2002, the capital lease liability was forgiven by the lessor, resulting in other income of \$339,000, which was included in selling, general and administrative expenses for fiscal 2002.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6. STOCK COMPENSATION PLANS

STOCK OPTION PLAN

In May 2001 and May 1997, the Board of Directors adopted and the shareholders approved two new stock option plans providing for the grant of up to 200,000 shares and 175,000 shares of common stock, respectively, at any time over the next ten years from the date such plans were adopted. These stock option plans have been terminated subsequent to the fiscal year ended November 30, 2002.

Pursuant to resolutions adopted by the Company's Board of Directors and documentation sent to and returned to the Company by option holders, effective immediately following stockholder approval of the Plan, on May 30, 2002, all outstanding options under the Company's 1997 Stock Incentive Plan became vested, and all options as to which optionees (including employees and directors) had returned to the Company the appropriate forms (representing options held by all but one optionee, who exercised via payment to the Company) were exercised through the issuance of loans from the Company to the optionees, with stock of the optionees held as collateral by the Company until the loans have been satisfied. The amount loaned to the employees and directors to exercise their options was approximately \$1,495,000, which was repaid as of June 13, 2003. These options were subject to variable accounting at each reporting period, until the related loans were repaid. In June 2003, the Company repurchased 22,984 shares of its common stock at \$9.48 per share from employees and directors with outstanding loans from the Company to offset the related payment of the loans due from such employees and directors, which were due as of May 31, 2003 with a one month grace period. The Company purchased the number of shares necessary for the employees and directors to pay off all outstanding loans, including interest. In fiscal 2003 and 2002 no compensation costs was recorded related to variable accounting since the market price of the Company's stock did not change significantly from the date the options were exercised to the date the loans were repaid in fiscal 2003 and 2002. Based on the acceleration of certain stock options, the Company recorded a charge of approximately \$418,000 to compensation expense and an increase to additional paid-in capital in fiscal 2002. As of November 27, 2004 there were no outstanding options under either of the 2001 stock option plan or the 1997 stock option plan.

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**FAB INDUSTRIES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

There were no options granted in fiscal 2004, 2003 and 2002.

Data regarding the Company's stock option plan follows:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE PER SHARE
Shares under option, December 1, 2001	143,200	\$ 12.53
Options granted	--	--
Options exercised	(133,000)	12.51
Options canceled	(10,200)	12.70
Shares under option, <u>November 30, 2002</u>	--	--
Shares under option, <u>November 29, 2003</u>	--	--
Shares under option, <u>November 27, 2004</u>	--	--
Options exercisable at:		
<u>November 30, 2002</u>	--	--
<u>November 29, 2003</u>	--	--
<u>November 27, 2004</u>	--	--

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. BENEFIT PLANS

PROFIT SHARING PLANS

A qualified plan, which covers the majority of salaried employees, provides for discretionary contributions up to a maximum of 15% of eligible salaries. The distribution of the contribution to the Plan's participants is based upon their annual base compensation. Contributions for fiscal 2004, 2003 and 2002 were \$104,000, \$118,000 and \$144,000, respectively.

The Company also has a nonqualified defined contribution retirement plan for key employees who are ineligible for the salaried employees' qualified profit sharing plan. Contributions for fiscal 2004, 2003 and 2002 were \$39,000, \$41,000 and \$41,000, respectively. Benefits payable under this plan amounting to \$1,901,000 and \$1,925,000 at November 27, 2004 and November 29, 2003, respectively, are included in other noncurrent liabilities. These liabilities are fully funded by plan assets of equal amounts, which are included in other assets.

In fiscal 2004, the Company recorded compensation expense and an offset to investment income totaling \$155,000 to reflect changes in the fair value of the trading securities held by the nonqualified defined contribution retirement plan, in accordance with EITF 97-14.

PENSION PLAN

The Company maintains a non-contributory defined benefit pension plan (Fab Industries, Inc. Hourly Employees' Retirement Plan) which covers substantially all hourly employees. The Plan provides benefits based on the participants' years of service.

An estimate of the liability associated with terminating the plan for underfunding of the hourly plan would be approximately \$2.0 million. This will be assessed by the Pension Benefit Guarantee Corporation. This has been included in the estimated costs of liquidation. The Company plans to terminate the non-contributory defined benefit pension plan and distribute the lump sum payment to its participant on transfer of the Company's assets to the liquidating trust.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provide a reconciliation of the changes in the Plan's benefit obligations and fair value of assets and a statement of the funded status of the Plan for fiscal 2003:

	2003
RECONCILIATION OF THE BENEFIT OBLIGATION	
Obligation at beginning of year	\$3,312,000
Service cost	163,000
Interest cost	218,000
Actuarial loss	355,000
Benefit payments	(785,000)
Obligation at end of year	\$3,263,000
RECONCILIATION OF FAIR VALUE OF PLAN ASSETS	
Fair value of plan assets at beginning of year	\$2,477,000
Actual return on plan assets (net of expenses)	137,000
Employer contribution	--
Benefit payments	(785,000)
Fair value of plan assets at end of year	\$1,829,000
FUNDED STATUS	
Funded status	\$(1,434,000)
Unrecognized prior service cost	256,000
Unrecognized actuarial loss	464,000
Net amount recognized	\$(714,000)

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table provides the amounts recognized in the consolidated balance sheets as of November 29, 2003:

	2003
Accrued benefit liability (included in other noncurrent liabilities)	\$(1,434,000)
Intangible pension asset (included in other assets)	256,000
Accumulated other comprehensive loss (Net of tax effect below)	297,000
Deferred tax asset	167,000
Net amount recognized	\$ (714,000)

The following table provides the components of the net periodic (benefit) cost for the Plan for fiscal 2004 and 2003:

[Download Table]

	2004	2003
Service cost	\$ 159,000	\$ 163,000
Interest cost on projected benefit obligation	215,000	218,000
Expected return on plan assets	(144,000)	(191,000)
Amortization of prior service cost	37,000	37,000
Amortization of net gain	31,000	--
Recognized loss due to curtailment and settlement	83,000	109,000
Net periodic pension cost	\$ 381,000	\$ 336,000

Prior service costs are being amortized over the average remaining service period as of the date of each amendment for active members expected to receive benefits. Accumulated gains/losses in excess of 10% of the greater of Projected Benefit Obligation and the Fair Value of Assets are amortized over the average future work life of participants expected to receive benefits.

The weighted average assumptions used in the measurement of the Company's benefit obligations for fiscal 2004 and 2003 are shown in the following table:

	2004	2003
Discount rate	6.00%	6.25%
Expected return on plan assets	8.00%	8.00%

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

EMPLOYEE STOCK OWNERSHIP PLAN

The Company had an Employee Stock Ownership Plan ("ESOP"), which covered all full-time employees who have completed one year of service. In 1991, the ESOP purchased 340,000 shares of common stock from the Chairman of the Board of Directors and President of the Company for \$34.875 per share, which represented 5.5% of the Company's then outstanding common stock. The ESOP was funded by the Company, pursuant to a loan pledge agreement for \$11,857,000. The loan was payable by the ESOP to the Company from contributions to be made in fifteen equal annual principal installments plus interest at the prime rate. Employee rights to the common shares vest over a seven-year period and are payable at retirement, death, disability or termination of employment.

The Company accounted for the ESOP shares in accordance with the provisions of the American Institute of Certified Public Accountants' Statement of Position No. 76-3. ESOP contributions were recorded for financial reporting purposes as the ESOP shares became allocable to the plan participants. All ESOP shares were considered outstanding in the determination of earnings (loss) per share.

Pursuant to resolutions adopted by the Company's Board of Directors, upon approval of the Plan by the stockholders on May 30, 2002 Employees Stock Ownership Plan (the ESOP) was terminated and all shares of common stock of the Company then held in the ESOP suspense account (86,456 shares) were transferred to the Company, and held as treasury stock, in exchange for the cancellation of the outstanding loan in the amount of \$3,957,000 from the Company to the ESOP. The Company recorded the related treasury stock at the fair market value on the date of the termination, which resulted in a \$2.4 million charge to additional paid-in-capital in fiscal 2002.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Income Taxes

Provisions (benefits) for Federal, state and local income taxes for fiscal 2004, 2003 and 2002 consisted of the following components (in thousands):

	2004	2003	2002
Current:			
Federal	\$ 379	\$ 313	\$ 479
State and local	120	150	100
	499	463	579
Deferred:			
Federal and state	(534)	(638)	461
	\$ (35)	\$ (175)	\$ 1,040

The provision (benefit) for income taxes differed from the amount computed by applying the statutory federal income tax rate of 34.0% for fiscal 2004, 2003 and 2002 to income (loss) before income taxes due to the following:

	2004 (Tax effect in thousands)	2003	2002
Federal tax expense (benefit) at statutory rate	\$ (36)	\$ (525)	\$ 513
State and local income taxes, net of Federal benefit	79	99	66
Tax-free interest income and dividends received deduction	(50)	(59)	(119)
Other	(28)	310	580
Income tax expense (benefit)	\$ (35)	\$ (175)	\$ 1,040

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**FAB INDUSTRIES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The net deferred tax liability (asset) at November 27, 2004 and November 29, 2003 consisted of the following (in thousands):

	2003
Long-term portion:	
Deferred tax liability (asset) for:	
Depreciation	\$ 1,577
Employee Benefit Plans	(1,360)
Pension obligation	(167)
Other	2
Net long-term liability (asset)	52
Current portion:	
Deferred tax liability (asset) for:	
Allowance for doubtful accounts	(337)
Net unrealized gain on investment securities	74
Other	(243)
Net current liability (asset)	(506)
Net deferred tax asset	\$ (454)
	2004
DEFERRED TAX ASSET	
Accounts Receivable	\$ (713)
Inventory	(1,203)
Other	(111)
Total	(2,027)
Valuation Allowance	172
Net Asset after Valuation Allowance	\$ (1,855)
DEFERRED TAX LIABILITY	
Fixed Assets	\$ 739
Prepaid Insurance	164
Total	903
Net Deferred Tax Asset (1)	\$ (952)

(1) Included in other assets in the statement of net assets in liquidation and represents expected recoveries in liquidation.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. COMMITMENTS AND CONTINGENCIES

EMPLOYMENT AGREEMENT

On July 25, 2003, [the Company](#) and Mr. Bitensky amended the employment agreement between [the Company](#) and Mr. Bitensky dated as of March 1, 1993 to provide that at such time as [the Company](#) is sold or liquidated pursuant to the Plan, in lieu of the annual consulting fees due under such an agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment, as determined by the Board. Accordingly, [the Company](#) recorded a charge of \$856,000, which was included in other expense for fiscal 2003.

Such amendment to the employment agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require [the Company](#) to purchase upon his death shares of common stock from his estate equal to the lesser of \$7 million or 10% of the book value of the Company at the end of the year immediately following his death, plus \$3 million in proceeds from insurance on his life for which [the Company](#) was beneficiary. In consideration of Mr. Bitensky's relinquishing the right to have [the Company](#) repurchase approximately \$10 million of shares of common stock from his estate, [the Company](#) agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by [the Company](#). [The Company](#) transferred these policies having an aggregate cash surrender value at November 29, 2003 of approximately \$803,000. Accordingly, [the Company](#) recorded a charge of \$803,000, which was included in other expenses and reclassified the \$7 million in redeemable common stock to retained earnings in fiscal 2003. The redeemable shares were included in the basic and diluted weighted average number of shares outstanding for the fiscal years ending November 29, 2003 and November 30, 2002.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

LEASES

The Company leases its New York City offices and showrooms until 2005, at average minimum annual rentals of \$91,000 plus escalation and other costs.

Rental expense for operating leases in fiscal 2004, 2003 and 2002 aggregated \$251,000, \$297,000 and \$495,000, respectively.

Future minimum annual payments over the remaining noncancellable term of the Company's New York City operating lease are as follows:

FISCAL YEAR ENDING (IN THOUSANDS)

2005	\$ 91
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LITIGATION

On November 10, 2003, a class action suit was filed against the Company in Delaware Chancery Court. The complaint asserts claims against the Company and certain of its officers and directors based on the management buy-out proposal at a price allegedly lower than the cash value and book value of the Company's shares and which was an allegedly interested transaction, the amendment to Mr. Bitensky's employment contract, the Company's failure to seek stockholder approval for the management buyout and the Company's failure to file a certificate of dissolution with the Delaware Secretary of State. The complaint alleges such actions constitute violations of defendants' fiduciary duties, as well as the provisions of the Delaware General Corporation Law.

The complaint does not seek a specific amount of damages, and seeks to enjoin defendants from effectuating the planned management buyout. The Company served an answer to the complaint on December 11, 2003.

On each of November 21 and November 26, 2003 class action lawsuits were initiated against the Company in Delaware Chancery Court asserting the same allegations as those described above.

The Company believes that each of the claims described above is without merit. Further, certain of the claims described above have been rendered moot by the withdrawal of preliminary offer by the management-led buyout to acquire the Company.

By petition dated September 9, 2004, plaintiff requested that all of its claims be dismissed because they have been rendered moot by the withdrawal of the management buy-out and there is no current plan to effectuate a sale of the Company's assets. Plaintiff also petitioned the Court for an award of reasonable attorney's fees in the amount of \$300,000 and attorney's expenses of \$13,794.05 (the "Fee Petition") because plaintiff's claim conferred a benefit on the Company's public stockholders by preventing the consummation of the proposed management buy-out and preserving the value of the public stockholders' investment in the Company's stock. The Company opposed the petition.

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**FAB INDUSTRIES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

On December 29, 2004 the Court of Chancery of the State of Delaware denied the Fee Petition. The Court concluded that the Fee Petition should be denied as plaintiff's claims either were not meritorious when filed or, to the extent that they were, they are not yet moot.

Following that decision, plaintiff moved for summary judgment on its claims relating to the Company's alleged failure to timely file a certificate of dissolution and seeking a declaration that the plan of dissolution (the "Plan") is invalid for failure to require a shareholder vote before the sale of all of the Company's assets. The motions were fully briefed and argued before the Court on April 12, 2005. On May 2, 2005, the court issued its opinion holding that the Plan is valid in its entirety and that the Company has not violated Delaware law by not yet filing its certificate of dissolution. The court stated that the Company may negotiate and agree to a sale before the certificate of dissolution is filed, but that the sale cannot be consummated until the certificate of dissolution has become effective. The court concluded that once the dissolution becomes effective, Fab may consummate a sale of its assets without a shareholder vote.

A number of claims and lawsuits are pending against the Company. It is impossible at this time for the Company to predict with any certainty the outcome of such litigation. However, management is of the opinion based upon information presently available, that it is unlikely that any liability would be material in relation to the Company's consolidated financial position, or results of operations.

OTHER

The Company had a letter of credit with its insurance provider for \$400,000 as of November 27, 2004, subsequently reduced to \$100,000.

10. STATEMENT OF CASH FLOWS

Cash outlays for corporate income taxes and interest for fiscal 2004, 2003 and 2002 were as follows (in thousands):

	CORPORATE INCOME	
	TAXES	INTEREST
November 30, 2003 thru November 26, 2004	\$ 162	\$ --
Fiscal 2003	538	--
Fiscal 2002	156	13

NONCASH INVESTING AND FINANCING ACTIVITIES

In fiscal 2004, 2003 and 2002, net unrealized holding losses of \$(322,000), \$(372,000) and \$0, respectively, less related income taxes of \$(129,000), \$(149,000), and \$0, on investment securities available-for-sale, were recorded as decreases in stockholders' equity.

In June 2003, the Company repurchased 22,984 shares of its common stock at \$9.48 per share from employees and directors in exchange for its notes receivable from these individuals.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. INTEREST AND DIVIDEND INCOME

Interest and dividend income for the past three fiscal years were as follows (in thousands):

	INTEREST INCOME	DIVIDEND INCOME	TOTAL
November 30, 2003	\$529	\$112	\$641
thru November 26, 2004			
Fiscal 2003	1,089	190	1,279
Fiscal 2002	2,164	249	2,413

Fiscal 2004 includes investment income of \$155,000 offset by compensation expense to reflect changes in the fair value of the trading securities held by the nonqualified defined contribution plan, in accordance with EITF 97-14.

12. ASSET IMPAIRMENT AND RESTRUCTURING CHARGES

From November 30, 2003 thru November 26, 2004 and fiscal 2003, the Company reviewed assets held for sale and determined an additional impairment charge of \$615,000 and \$685,000, respectively was required based on a comparison of a comparison the assets book value to market prices determined by an independent appraiser.

The Company continues to utilize the majority of its remaining property, plant, and equipment, however, there can be no assurance that the Company will sell its assets or if it does sell its assets, that it will be able to recover the full value of its assets, particularly its property, plant and equipment. (see summary of accounting policies for the transfer to the liquidating trust)

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for fiscal 2004, 2003 and 2002 are calculated as follows:

[Download Table]

	NET INCOME (LOSS)	WEIGHTED AVERAGE SHARES	PER SHARE AMOUNT
November 30, 2003 thru			
November 26, 2004:			
Basic loss per share	\$(72,000)	5,215,031	\$ (.01)
Effect of assumed exercise of employee stock options	--	--	
Diluted loss per share	\$(72,000)	5,215,031	\$ (.01)
Fiscal year ended November 29,			
2003:			
Basic loss per share	\$(1,370,000)	5,226,902	\$ (.26)
Effect of assumed exercise of employee stock options	--	--	
Diluted loss per share	\$(1,370,000)	5,226,902	\$ (.26)
Fiscal year ended November 30,			
2002:			
Basic earnings per share	\$1,970,000	5,222,812	\$.38
Effect of assumed exercise of employee stock options	--	--	
Diluted earnings per share	\$1,970,000	5,222,812	\$.38

During fiscal 2004 and 2003 there were no options outstanding. During fiscal 2002, all outstanding options were either exercised or canceled.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. SEGMENT INFORMATION

The Company adopted SFAS No. 131 "Disclosure About Segments of an Enterprise and Related Information" in fiscal 1999. SFAS No. 131 requires companies to report information on segments using the way management organizes segments within the company for making operating decisions and assessing financial performance.

The Company's chief operating decision-maker is considered to be the Chief Executive Officer (CEO). The Company's CEO evaluates both consolidated and disaggregated financial information in deciding how to allocate resources and assess performance. The Company has identified three reportable segments based upon the primary markets it serves: Apparel Fabrics, Home Fashions, Industrial Fabrics and Accessories and Other.

Apparel Fabrics: The Company's basic warp and circular knit fabrics are sold to manufacturers of outerwear, intimate apparel, loungewear, and activewear. These fabrics are sold primarily in piece dyed form, as well as in "PFP" (prepared for print), and heat transfer print configurations.

The Company's wide elastic fabrics are sold to manufacturers of intimate apparel, foundation, swimwear, athleticwear, aerobicwear, sportswear, and healthcare products.

The Company's lace products are sold to manufacturers of intimate apparel, hosiery, ladies sportswear, children's wear, swimwear, accessories, and hobbies and crafts.

Home Fashions and Accessories: The Company utilizes its internally manufactured fabrics and laces to produce flannel and satin sheets, blankets, comforters, and other bedding-related products which are sold to specialty retail stores, catalog and mail order companies and airlines through the Company's subsidiary, Salisbury Manufacturing Corporation.

Other: Included in this segment is (1) Gem Urethane Corporation, (2) the Over-the-Counter Retail operation and (3) sales of industrial and other miscellaneous fabrics.

The Company's subsidiary, Gem Urethane Corporation produces a line of bonded products for manufacturers of environmental, healthcare, industrial and consumer products.

Gem also performs commission laminating for various manufacturers of consumer products. Fire resistant fabrics are sold to manufacturers in the seating, transportation, and military markets through its subsidiary Sandel International Corporation.

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**FAB INDUSTRIES, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

=====

The Company also sells its fabric and laces to "Over-the-Counter" retail customers through the Company's retail manufacturing operations, which are located at the Company's Salisbury Manufacturing plant.

Specialized, engineered fabrics are sold to manufacturers of industrial, healthcare, medical, and military products.

The accounting policy of the reportable segments are the same as those described in Summary of Accounting Policies. The Company neither allocates to the segments nor bases segment decisions on the following:

- Interest and dividend income
- Interest and other expense
- Net gain on investment securities
- Income tax expense or benefit

Many of the Company's assets are used by multiple segments. While certain assets such as Inventory and Property, Plant and Equipment are identifiable by segment, an allocation of the substantial remaining assets is not meaningful.

The 52 weeks ended November 30, 2002 includes a litigation settlement in the amount of \$750,000, which was included in the Home Fashions and Accessories segment (see Note 16). The 52 weeks ended November 29, 2003 included other expenses of \$1,659,000, relating to the amendment to Mr. Bitensky's employment agreement (see Note 9). This amount was allocated between segments with a majority included in the apparel segment. In addition, the asset impairment charge in fiscal 2004 and fiscal 2003 applied to the apparel segment (see Note 12). The 52 weeks ended November 27, 2004 includes a gain on the sale of fixed assets of \$1,073,000. Of this, \$441,000 belongs to the other segment and the balance applied to the apparel segment. The fixed assets, which were sold in the first quarter of 2004 relating to the other segment, were sold to a customer, which previously owned 50% of the equipment. The proceeds from this sale amounted to \$1,100,000. As a result, the customer, at an undeterminable future date will be doing the production on its own. In addition, the apparel segment includes a \$226,000 reserve for environmental costs (see Note 16). The apparel segment includes \$155,000 compensation expenses and an offset to investment income to reflect changes in the fair value of the trading securities held by the nonqualified defined contribution retirement plan, in accordance with EITF 97-14. As of November 27, 2004, accounts receivable, inventory, and plant and equipment are valued at net orderly liquidation value determined by an outside independent appraiser. In addition, other assets were decreased to liquidation value.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During fiscal 2004, one customer accounted for approximately 13% of net sales. The receivable from this customer represents approximately 26%. Our export sales are not material.

The following are our segment revenues and income (loss) by reportable segments for the fiscal years 2004, 2003, and 2002.

[Enlarge/Download Table]

<u>NOVEMBER 30, 2003 THRU NOVEMBER 26, 2004</u>	<u>APPAREL</u>	<u>HOME FASHIONS, AND ACCESSORIES</u>	<u>OTHER</u>	<u>TOTAL</u>
External sales	\$37,311	\$ 4,478	\$7,871	\$49,660
Intersegment sales	3,088	50	216	3,354
Operating income/(loss)	(2,998)	184	1,307	(1,507)
Depreciation expense	1,296	56	247	1,599
Segment assets (1)	6,197	385	1,001	7,583
Capital expenditures	13	7	14	34
2003	APPAREL	HOME FASHIONS, AND ACCESSORIES	OTHER	TOTAL
External sales	\$39,143	\$ 4,227	\$7,803	\$51,173
Intersegment sales	3,579	56	306	3,941
Operating income/(loss)	(4,647)	(187)	744	(4,090)
Depreciation expense	1,475	64	364	1,903
Segment assets	11,682	929	2,370	14,981
Capital expenditures	27	38	202	267
2002	APPAREL	HOME FASHIONS, AND ACCESSORIES	OTHER	TOTAL
External sales	\$51,269	\$ 4,673	\$7,023	\$62,965
Intersegment sales	3,860	22	372	4,254
Operating income/(loss)	(679)	(1,085)	195	(1,569)
Depreciation expense	1,600	51	327	1,978
Segment assets	16,317	1,005	2,543	19,865
Capital expenditures	--	--	225	225

- (1) As of November 27, 2004, accounts receivable, inventory and property, plant and equipment are valued at net orderly liquidation value determined by an outside independent appraiser.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

[Download Table]

REVENUES	2004	2003	2002
	----	----	----
Total external sales for segments	\$ 49,660	\$ 51,173	\$ 62,965
Intersegment sales for segments	3,354	3,941	4,254
Elimination of intersegment sales	(3,354)	(3,941)	(4,254)
Total consolidated sales	\$ 49,660	\$ 51,173	\$ 62,965
	=====	=====	=====
PROFIT OR LOSS			
Total operating loss for segments	\$ (1,507)	\$ (4,090)	\$ (1,569)
Total other income	1,400	2,545	4,579
Income (loss) before taxes on income	\$ (107)	\$ (1,545)	\$ 3,010
	=====	=====	=====
ASSETS			
Total segments assets (1)	\$ 7,583	\$ 14,981	\$ 19,865
Assets not allocated to segments	30,001	42,802	61,052
Total consolidated assets	\$ 37,584	\$ 57,783	\$ 80,937
	=====	=====	=====
OTHER SIGNIFICANT ITEMS			
Depreciation expense	\$ 1,599	\$ 1,903	\$ 1,978
Not allocated to segments	19	24	165
Consolidated total	\$ 1,618	\$ 1,927	\$ 2,143
	=====	=====	=====
Capital expenditures	\$ 34	\$ 267	\$ 225
Not allocated to segments	--	--	--
Consolidated total	\$ 34	\$ 267	\$ 225
	=====	=====	=====

(1) As of November 27, 2004, accounts receivable, inventory and property, plant and equipment are valued at net orderly liquidation value determined by an outside independent appraiser.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. QUARTERLY FINANCIAL DATA (UNAUDITED)

Quarterly earnings were as follows (in thousands, except for earnings per share):

[Enlarge/Download Table]

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER (1)	TOTAL
Fiscal 2004:					
Net sales	\$ 10,141	\$ 14,596	\$ 11,741	\$ 13,182	\$ 49,660
Gross profit	429	2,311	492	1,686	4,918
Net income (loss)	(292)	767	(508)	(39)	(72)
Earnings (loss) per share:					
Basic	\$ (0.06)	\$ 0.15	\$ (0.10)	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.06)	\$ 0.15	\$ (0.10)	\$ (0.01)	\$ (0.01)
Fiscal 2003:					
Net sales	\$ 11,587	\$ 13,646	\$ 13,357	\$ 12,583	\$ 51,173
Gross profit	741	1,353	1,002	1,159	4,255
Net income (loss)	(270)	320	(1,252)	(168)	(1,370)
Earnings (loss) per share:					
Basic	\$ (0.05)	\$ 0.06	\$ (0.24)	\$ (0.03)	\$ (0.26)
Diluted	\$ (0.05)	\$ 0.06	\$ (0.24)	\$ (0.03)	\$ (0.26)

(1) For Fiscal 2004, the period of the fourth quarter was from August 29, 2004 to November 26, 2004.

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**FAB INDUSTRIES, INC.
AND SUBSIDIARIES**

**VALUATION AND QUALIFYING ACCOUNTS
(IN THOUSANDS)**

=====

[Enlarge/Download Table]

COL. A DESCRIPTION	COL. B BALANCE AT BEGINNING OF YEAR	COL. C ADDITIONS		COL. D DEDUCTIONS	COL. E BALANCE AT END OF YEAR
		(1) CHARGED TO COSTS AND EXPENSES	(2) CHARGED TO OTHER ACCOUNTS		
November 30, 2003 thru November 27, 2004:					
Allowance for doubtful Accounts	\$ 900	\$ 600(i)	\$ --	\$ (1,500)(iii)	\$ --
Fiscal year ended November 27, 2004:					
Allowance for doubtful Accounts	\$ 1,000	\$ 400(i)	\$ --	\$ (500)(iii)	\$ 900
Fiscal year ended November 27, 2004:					
Allowance for doubtful Accounts	\$ 600	\$ 400(i)	\$ --	\$ --	\$ 1,000
(i) Current year's provision.					
(iii) Accounts receivable written-off, net of recoveries and an adjustment was recorded on November 27, 2004 in the amount of \$1,100 to reduce the allowance to \$0, based on the change in the basis of accounting to the liquidation basis on November 27, 2004.					
November 30, 2003 thru November 27, 2004:					
Allowance for sales returns	\$ 500	\$ 400	\$ --	\$ (900)(iii)	\$ --
Fiscal year ended November 27, 2004:					
Allowance for sales returns	\$ 700	\$ --	\$ --	\$ (200)	\$ 500
Fiscal year ended November 27, 2004:					
Allowance for sales returns	\$ 700	\$ --	\$ --	\$ --	\$ 700

(iii) An adjustment was recorded on November 27, 2004 to reduce the allowance to \$0, based on the change in the basis of accounting to the liquidation basis on November 27, 2004.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, Fab has duly caused this report to be signed on our behalf by the undersigned, thereunto duly authorized.

FAB INDUSTRIES, INC.

By: /s/ Samson Bitensky

Samson Bitensky
Chairman of the Board and
Chief Executive Officer

Date: May 4, 2005

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the Company and in the capacities and on the dates indicated.

<u>SIGNATURE</u> -----	<u>DATE</u> ----	<u>CAPACITY IN WHICH SIGNED</u> -----
/s/ <u>Samson Bitensky</u> ----- <u>Samson Bitensky</u>	<u>May 4, 2005</u>	Chairman of the Board, Chief Executive Officer, and Director (Principal Executive Officer)
/s/ <u>David A. Miller</u> ----- <u>David A. Miller</u>	<u>May 4, 2005</u>	Vice President - Finance, Treasurer, and Chief Financial Officer (Principal Financial and Accounting Officer)
/s/ <u>Martin B. Bernstein</u> ----- <u>Martin B. Bernstein</u>	<u>May 4, 2005</u>	Director
/s/ <u>Lawrence H. Bober</u> ----- <u>Lawrence H. Bober</u>	<u>May 4, 2005</u>	Director
/s/ <u>Susan B. Lerner</u> ----- <u>Susan B. Lerner</u>	<u>May 4, 2005</u>	Director
/s/ <u>Richard Marlin</u> ----- <u>Richard Marlin</u>	<u>May 4, 2005</u>	Director
/s/ <u>Steven E. Myers</u> ----- <u>Steven E. Myers</u>	<u>May 4, 2005</u>	Director, President and Chief Operating Officer

Dates Referenced Herein and Documents Incorporated by Reference

<u>This '10-K' Filing</u>	<u>Date</u>	<u>Referenced-On Page</u>		<u>Other Filings</u>
		<u>First</u>	<u>Last</u>	
	3/31/06	<u>26</u>		
	11/27/05	<u>46</u>		
	5/30/05	<u>3</u>	<u>45</u>	
Filed on:	5/9/05			
	5/4/05	<u>1</u>	<u>79</u>	
	5/2/05	<u>9</u>	<u>68</u>	
	5/1/05	<u>22</u>	<u>23</u>	
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	4/14/05	<u>10</u>		
	4/12/05	<u>9</u>	<u>68</u>	
	4/11/05	<u>10</u>		NT 10-Q
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	3/25/05	<u>10</u>		
	3/24/05	<u>10</u>		
	3/15/05	<u>10</u>		
	3/9/05	<u>3</u>	<u>44</u>	8-K
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	2/14/05	<u>28</u>		SC 13G, SC 13G/A
	2/9/05	<u>28</u>		SC 13G/A
	12/29/04	<u>9</u>	<u>68</u>	
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	9/9/04	<u>9</u>	<u>67</u>	
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Fab Industries Trust – '10-Q' for 5/28/05

On: Friday, 8/12/05, at 9:45am ET · For: 5/28/05 · Accession #: 950142-5-2296 · File #: [1-05901](#)

Previous '10-Q': '[10-Q](#)' on 5/24/05 for 2/26/05 · Latest '10-Q': This Filing

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[Help...](#) Wildcards: ? (any letter), * (many). Logic: for Docs: & (and), | (or); for Text: |(anywhere), "(&)" (near). [↓ BOTTOM](#)

<u>As Of</u>	<u>Filer</u>	<u>Filing</u>	<u>For On As</u>	<u>Docs Size</u>	<u>Issuer</u>	<u>Agent</u>
8/12/05	Fab Industries Trust	10-Q	5/28/05	5:57K		Paul Weiss Ri...LLP 01/FA

Quarterly Report — Form 10-Q **Filing Table of Contents**

<u>Document/Exhibit</u>	<u>Description</u>	<u>Pages</u>	<u>Size</u>
1: 10-Q	For Quarter Ended May 28, 2005	25	94K
2: EX-31	Exhibit 31.1	2±	9K
3: EX-31	Exhibit 31.2	2	9K
5: EX-32	Exhibit 32.2	1	6K
4: EX-32	Exhibit 32.1	1	6K

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FORM 10-Q QUARTERLY REPORT

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended MAY 28, 2005

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-5901

FAB INDUSTRIES TRUST

(Exact name of registrant as specified in its charter)

DELAWARE

13-2581181

(State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer
Identification No.)

200 MADISON AVENUE, NEW YORK, N.Y.

10016

(Address of principal executive office)

(Zip Code)

(212) 592-2700

(Registrant's telephone number, including area code)

FAB INDUSTRIES, INC.

(Former name, former address and former fiscal year;
if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of 8/10/2005, there were 5,215,031 Units of the registrant outstanding.

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EXPLANATORY NOTE.

As more fully described in this Quarterly Report of Form 10-Q, as of the close of business on May 27, 2005, Fab Industries, Inc. (referred to hereinafter as the "Company") transferred all of its assets and liabilities into a liquidating trust called the Fab Industries Trust (referred to hereinafter as the "Trust") and cancelled all of its issued and outstanding stock. This Quarterly Report on Form 10-Q is being filed by the Trust as successor to the Company. All references to the Company from and after May 27, 2005 shall be deemed to be references to the Trust.

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

STATEMENT OF NET ASSETS IN LIQUIDATION

[\[Enlarge/Download Table\]](#)

ASSETS:	(UNAUDITED)	
	MAY 28, 2005	NOVEMBER 27, 2004
Cash and cash equivalents	\$ 795,000	\$ 639,000
Investment securities available-for-sale	18,813,000	19,255,000
Accounts receivable	6,690,000	7,057,000
Inventories	1,440,000	1,517,000
Other assets	3,030,000	3,034,000
Property, plant and equipment	6,142,000	6,082,000
TOTAL ASSETS	36,910,000	37,584,000
LIABILITIES:		
Accounts payable	3,860,000	3,570,000
Corporate income and other taxes	480,000	819,000
Accrued payroll and related expenses	802,000	983,000
Other liabilities	5,711,000	3,636,000
Estimated cost of liquidation	9,556,000	11,589,000
TOTAL LIABILITIES	20,409,000	20,597,000
Net assets in liquidation	\$16,501,000	\$16,987,000

See notes to condensed consolidated financial statements

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

STATEMENT OF CHANGES IN NET ASSETS IN LIQUIDATION

PERIOD FROM NOVEMBER 27, 2004 THRU MAY 28, 2005 (UNAUDITED)

Net assets in liquidation at <u>November 27, 2004</u>	\$16,987,000
Reductions in net assets in liquidation:	
Interest and dividend income	268,000
Net gain on investment securities	183,000
Net other operating loss	(937,000)

	(486,000)

Net assets in liquidation at <u>May 28, 2005</u>	\$16,501,000
	=====
See notes to condensed consolidated financial statements.	

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 13 WKS ENDED
	May 29, 2004
	(unaudited)
Net sales	\$14,596,000
Cost of goods sold	12,285,000
Gross profit	2,311,000
Operating Expenses:	
Selling, general and administrative expenses	1,993,000
Gain on sale of fixed assets	(322,000)
Total operating expenses	1,671,000
Operating income	640,000
Other income:	
Interest and dividend income	108,000
Net gain on investment securities	434,000
Total other income	542,000
Income before taxes	1,182,000
Income tax expense	415,000
Net income	\$ 767,000
	=====
Income per share: (Note 4)	
Basic	\$ 0.15
Diluted	\$ 0.15
Cash dividends declared per share	\$ 3.00
See notes to condensed consolidated financial statements.	

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FAB INDUSTRIES TRUST AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	FOR THE 26 WKS ENDED
	May 29, 2004
	(unaudited)
Net sales	\$24,737,000
Cost of goods sold	21,997,000
Gross profit	2,740,000
Operating Expenses:	
Selling, general and administrative expenses	3,669,000
Gain on sale of fixed assets	(1,007,000)
Other expense (Note 8)	250,000
Total operating expenses	2,912,000
Operating loss	(172,000)
Other income:	
Interest and dividend income	330,000
Net gain on investment securities	602,000
Total other income	932,000
Income before taxes	760,000
Income tax expense	285,000
Net income	\$ 475,000
Income per share: (Note 4)	
Basic	\$ 0.09
Diluted	\$ 0.09
Cash dividends declared per share	\$ 3.00
See notes to condensed consolidated financial statements.	

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FAB INDUSTRIES TRUST AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE 26 WKS ENDED

MAY 29, 2004

(unaudited)

CASH FLOWS FROM OPERATING ACTIVITIES:

Net income	\$475,000
Adjustments to reconcile net income to net cash provided by operating activities:	
Provision for doubtful accounts	350,000
Depreciation and amortization	815,000
Deferred income taxes	(52,000)
Net gain on investment securities	(602,000)
Gain on disposition of fixed assets	(1,007,000)
Decrease (increase) in:	
Accounts receivable	(1,455,000)
Inventories	212,000
Other current assets	287,000
Other assets	24,000
(Decrease) increase in:	
Accounts payable	1,198,000
Accruals and other liabilities	899,000
Net cash provided by operating activities	1,144,000

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchases of property, plant and equipment	(40,000)
Proceeds from dispositions of property and equipment	1,738,000
Proceeds from sales of investment securities	11,253,000
Net cash provided by investing activities	12,951,000

CASH FLOWS FROM FINANCING ACTIVITIES:

Dividends	(15,645,000)
Decrease in cash and cash equivalents	(1,550,000)
Cash and cash equivalents, beginning of period	3,397,000
Cash and cash equivalents, end of period	\$1,847,000

See notes to condensed consolidated financial statements.

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

1. Basis of presentation: (unaudited)

These financial statements should be read in conjunction with the financial statements and notes thereto included in Fab Industries, Inc.'s Annual Report on Form 10-K for the year ended November 27, 2004.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Examples of such estimates include, but are not limited to, the accounting for contingencies and estimated costs of liquidation, which represents the estimate of the costs to be incurred during liquidation. Actual results could differ from those estimates.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002. Under the Plan, the Company was required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders on May 30, 2005, if the Company's business has not been sold by such date.

The Company announced on May 27, 2005 that it entered into a definitive agreement for the "as is, where is" sale, on a going concern basis of all its assets and the assumption of all its liabilities to SSJJJ Manufacturing, LLC, an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ") at a cash price of \$3.15 per share, for an aggregate consideration of \$16,427,347. The purchase price will be paid at the closing of the transaction by having the Company retain an amount of cash equal to \$16,427,347, with any cash shortfall from such amount to be paid by SSJJJ.

The closing on the asset sale is subject to the Trust, as successor to the Company, reaching final settlement of its previously disclosed shareholder litigation. The Company and the plaintiffs have entered into a Stipulation of Settlement pursuant to which the shareholder litigation will be dismissed if the court approves such settlement. A settlement hearing has been scheduled for September 21, 2005. At the settlement hearing, the court will, among other things, determine whether or not to approve the settlement of the shareholder litigation.

Since the closing of the sale of the Company's assets and liabilities to SSJJJ was subject to the final settlement of the shareholder litigation and could not close on or prior May 30, 2005, all of the Company's assets and liabilities were transferred to a liquidating trust (the "Fab Industries Trust") on May 27, 2005. In addition, in accordance with the terms of the Plan, the Company's stock transfer books closed effective as of the close of business on May 27, 2005 and its common stock was delisted from trading on the AMEX. Consequently, Friday May 27, 2005, was the last day the Company's common stock traded on the AMEX. The Company also filed its certificate of dissolution, effective as of the close of business on Friday, May 27, 2005, at which time all of the Company assets, including the definitive agreement for the sale of the business to SSJJJ, and all of the Company's liabilities, were transferred to the Fab Industries Trust. As of the

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

close of business on May 27, 2005, certificates representing shares of Company common stock are no longer assignable or transferable, except by will, intestate succession or by operation of law and the proportionate interests of all the Company's stockholders in the trust was fixed on the basis of their respective stock holdings at the close of business on Friday, May 27, 2005. After such date, any distributions made by the Trust will be made solely to the stockholders of record of the Company at the close of business on May 27, 2005, except as may be necessary to reflect subsequent transfers by will, intestate succession or by operation of law. The interests in the trust are not transferable, except by will, intestate succession or by operation of law. The trustee of the trust is Mr. Samson Bitensky, the Company's Chairman and Chief Executive Officer and the trust has a three-year duration.

On June 3, 2005, the Pension Benefit Guaranty Corporation ("PBGC") commenced a proceeding to terminate the Fab Industries, Inc. Hourly Employees' Retirement Plan (the "Retirement Plan") as of May 30, 2005, pursuant to the PBGC-initiated termination procedures set out in Section 4042 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Trust expects that it will soon either (i) agree to termination of the Retirement Plan on the basis proposed by PBGC, or (ii) initiate a so-called "standard" termination under Section 4041 of ERISA. In either such case, the Trust expects that it will pay the underfunding shortfall either to the Retirement Plan (in the case of a standard termination) or to the PBGC on behalf of the Retirement Plan (in connection with a PBGC-initiated termination). Based on estimates recently received from the Trust's actuaries, the termination underfunding shortfall at July 31, 2005 is estimated to be approximately \$2 million.

The Trust's financial statements are presented on a liquidation basis as the Trust's assets and liabilities were transferred to the liquidating trust. The amount of distributions ultimately available to be made to shareholders upon the final liquidation of the Trust may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation as a result of future changes in settlement of liabilities and obligations and actual costs of liquidation. The amounts realizable on the assets may differ from the "net assets in liquidation" recorded in the accompanying statements of Net Assets in Liquidation based on numerous factors including timing of sales, market conditions and the quality of the assets.

Under the liquidation basis of accounting, assets are stated at their estimated net realizable value and liabilities are stated at their anticipated settlement amounts, which approximates the \$16,501,000 net orderly liquidation value. Included in the liabilities, the Trust accrued \$9,556,000 in costs of liquidation representing the estimate of the costs to be incurred during liquidation; however, actual costs could vary from those estimates.

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

Liabilities, including estimated costs of liquidation, consist of the following:

[Enlarge/Download Table]

	(UNAUDITED)	
	MAY 28, 2005	NOVEMBER 27, 2004
Accounts payable and accrued liabilities	\$10,853,000	\$9,008,000
ESTIMATED COSTS OF LIQUIDATION:		
Compensation and benefits	6,191,000	6,191,000
Defined benefit pension plan (1)	---	2,033,000
Legal audit and tax services	1,250,000	1,250,000
Insurance	450,000	450,000
Other costs, including leases, property taxes, utilities, maintenance, repairs, stationery supplies, postage, and security	1,665,000	1,665,000
	9,556,000	11,589,000
Total liabilities	\$20,409,000	\$20,597,000

(1) \$2,007,000 of defined benefit plan transferred to accounts payable and accrued liabilities.

ACCOUNTING FOR STOCK-BASED COMPENSATION

The Company's stock option plans were terminated subsequent to the fiscal year ended November 30, 2002 and there has been no stock compensation expense under the disclosure-only provision of SFAS No.123 subsequent thereto.

2. Cash and cash equivalents consist of the following (in thousands):

	(UNAUDITED)	
	MAY 28, 2005	NOVEMBER 27, 2004
Cash and cash equivalents	\$ 795	\$ 639

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

3. Investment Securities:

At May 28, 2005 and November 27, 2004, investment securities available-for-sale consisted of the following (in thousands):

<u>MAY 28, 2005 (UNAUDITED)</u>	<u>COST</u>	<u>FAIR VALUE</u>
U.S. Treasury obligations	18,466	18,508
Corporate bonds	250	0
Money market	305	305
	<u>\$ 19,021</u>	<u>\$ 18,813</u>
	=====	=====
 <u>NOVEMBER 28, 2004</u>	 <u>COST</u>	 <u>FAIR VALUE</u>
Equities	\$ 6,516	\$ 6,651
U.S. Treasury obligations	11,132	11,112
Corporate bonds	1,591	1,339
Money Market	153	153
	<u>\$ 19,392</u>	<u>\$ 19,255</u>
	=====	=====

The Trust has agreements with various brokerage firms to carry its account as a customer. The brokers have custody of the Trust's securities and, from time to time, cash balances, which may be due from these brokers. These securities and/or cash positions serve as collateral for any amounts due to brokers or as collateral for securities sold short or securities purchased on margin. The securities and/or cash positions also serve as collateral for potential defaults of the Trust.

The Trust is subject to credit risk if the brokers are unable to repay balances due or deliver securities in their custody. It is the policy of the Trust to limit the amount of credit exposure to any one financial institution. The Trust has received confirmation indicating that, with respect to investment securities, each custodian maintains appropriate insurance coverage.

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

4. Earnings Per Share:

Basic and diluted earnings per share for the 13 weeks and 26 weeks ended May 29, 2004 are calculated as follows:

[Download Table]

	NET INCOME -----	AVERAGE SHARES -----	WEIGHTED PER-SHARE AMOUNT -----
For the 13 weeks ended <u>May 29, 2004</u> :	\$767,000 -----	5,215,031 -----	\$0.15 -----
For the 26 weeks ended <u>May 29, 2004</u> :	\$475,000 -----	5,215,031 -----	\$0.09 -----

5. Litigation:

On November 10, 2003, a class action suit was filed against the Company in Delaware Chancery Court. The complaint asserts claims against the Company and certain of its officers and directors based on the management buy-out proposal at a price allegedly lower than the cash value and book value of the Company's shares and which was an allegedly interested transaction, the amendment to Mr. Bitensky's employment contract, the Company's failure to seek stockholder approval for the management buyout and the Company's failure to file a certificate of dissolution with the Delaware Secretary of State. The complaint alleges such actions constitute violations of defendant's fiduciary duties as well as the provisions of the Delaware General Corporation Law.

The complaint does not seek a specific amount of damages, and seeks to enjoin defendants from effectuating the planned management buyout. The company served an answer to the complaint on December 11, 2003.

On each of November 21 and November 26, 2003 class action lawsuits were initiated against the Company in Delaware Chancery Court asserting substantially the same allegations as those described above.

The Company believes that each of the claims described above is without merit. Further, certain of the claims described above have been rendered moot by the withdrawal of preliminary offer by management-led buyout to acquire the Company.

By petition dated September 9, 2004, plaintiff requested that all of its claims be dismissed because they have been rendered moot by the withdrawal of the management buy-out and there is no current plan to effectuate a sale of the Company's assets. Plaintiff also petitioned the Court for an award of reasonable attorney's fees in the amount of \$300,000 and attorney's expenses of \$13,794.05 (the "Fee Petition") because plaintiff's claim conferred a benefit on the Company's public stockholders by preventing the consummation of the proposed management buy-out and preserving the value of the public stockholders' investment in the Company stock. The Company opposed the petition.

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

5. Litigation continued:

On December 29, 2004, the Court of Chancery of the State of Delaware denied the Fee Petition. The Court concluded that the Fee Petition should be denied as plaintiff's claims either were not meritorious when filed or, to the extent that they were, they are not yet moot.

Following that decision, plaintiff moved for summary judgment on its claims relating to [the Company](#)'s alleged failure to timely file a certificate of dissolution and seeking a declaration that the plan of dissolution (the "Plan") is invalid for failure to require a shareholder vote before the sale of all of [the Company](#)'s assets. The motions were fully briefed and argued before the Court on April 12, 2005. On May 2, 2005, the court issued its opinion holding that the Plan is valid in its entirety and that [the Company](#) has not violated Delaware law by not yet filing its certificate of dissolution.

The court stated that [the Company](#) may negotiate and agree to a sale before the certificate of dissolution is filed, but that the sale cannot be consummated until the certificate of dissolution has become effective. The court concluded that once the dissolution becomes effective, Fab may consummate a sale of its assets without a shareholder vote.

The closing on the asset sale is subject to the Trust, as successor to [the Company](#), reaching final settlement of its previously disclosed shareholder litigation. [The Company](#) and the plaintiffs have entered into a Stipulation of Settlement pursuant to which the shareholder litigation will be dismissed if the court approves such settlement. A settlement hearing has been scheduled for September 21, 2005. At the settlement hearing, the court will, among other things, determine whether or not to approve the settlement of the shareholder litigation.

On June 3, 2005, the Pension Benefit Guaranty Corporation ("PBGC") commenced a court proceeding to terminate the Fab Industries, Inc. Hourly Employees' Retirement Plan (the "Retirement Plan") as of May 30, 2005, pursuant to the PBGC-initiated termination procedures set out in Section 4042 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Trust expects that it will soon either (i) agree to termination of the Retirement Plan on the basis proposed by PBGC, or (ii) initiate a so-called "standard" termination under Section 4041 of ERISA. In either such case, the Trust expects that it will pay the underfunding shortfall either to the Retirement Plan (in the case of a standard termination) or to the PBGC on behalf of the Retirement Plan (in connection with a PBGC-initiated termination). Based on estimates recently received from the Trust's actuaries, the termination underfunding shortfall at July 31, 2005 is estimated to be approximately \$2 million.

A number of claims and lawsuits are pending against the Trust. It is impossible at this time for the Trust to predict with any certainty the outcome of such litigation. However, management is of the opinion based upon information presently available, that it is unlikely that any liability would be material in relation to the Trust's consolidated financial position.

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

6. Segment Information:

[The Company](#) adopted SFAS No. 131 "*Disclosure About Segments of an Enterprise and Related Information*" in fiscal 1999. SFAS No. 131 requires companies to report information on segments using the way management organizes segments within [the company](#) for making operating decisions and assessing financial performance.

The Trust's chief operating decision-maker is considered to be the Chief Executive Officer (CEO). The Trust's CEO evaluates both consolidated and disaggregated financial information in deciding how to allocate resources and assess performance.

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

6. Segment Information (continued):

The Trust has identified three reportable segments based upon the primary markets it serves: Apparel Fabrics, Home Fashions, Industrial Fabrics and Accessories and Other.

Apparel Fabrics: The Trust's basic warp and circular knit fabrics are sold to manufacturers of outerwear, intimate apparel, loungewear, and activewear. These fabrics are sold primarily in piece dyed form, as well as in "PFP" (prepared for print), and heat transfer print configurations.

The Trust's wide elastic fabrics are sold to manufacturers of intimate apparel, foundation, swimwear, athleticwear, aerobicwear, sportswear, and healthcare products.

The Trust's lace products are sold to manufacturers of intimate apparel, hosiery, ladies sportswear, children's wear, swimwear, accessories, and hobbies and crafts.

Home Fashions and Accessories: The Trust utilizes its internally manufactured fabrics and laces to produce flannel and satin sheets, blankets, comforters, and other bedding-related products which are sold to specialty retail stores, catalog and mail order companies and airlines through the Trust's subsidiary, Salisbury Manufacturing Corporation.

Other: Included in this segment is (1) Gem Urethane Corporation, (2) the Over-the-Counter Retail operation and (3) sales of industrial and other miscellaneous fabrics.

The Trust's subsidiary, Gem Urethane Corporation produces a line of bonded products for manufacturers of environmental, healthcare, industrial and consumer products.

Gem also performs commission laminating for various manufacturers of consumer products. Fire resistant fabrics are sold to manufacturers in the seating, transportation, and military markets through its subsidiary Sandel International Corporation.

The Trust also sells its fabric and laces to "Over-the-Counter" retail customers through the Company's retail manufacturing operations, which are located at the Trust's Salisbury Manufacturing plant.

Specialized, engineered fabrics are sold to manufacturers of industrial, healthcare, medical, and military products.

The accounting policy of the reportable segments are the same as those described in Summary of Accounting Policies. The Trust neither allocates to the segments nor bases segment decisions on the following:

Interest and dividend income
Interest and other expense
Net gain on investment securities
Income tax expense or benefit

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

6. Segment Information (continued):

Many of the Trust's assets are used by multiple segments. While certain assets such as Inventory and Property, Plant and Equipment are identifiable by segment, an allocation of the substantial remaining assets is not meaningful.

The 26 weeks and 13 weeks ended May 29, 2004 includes gain on the sale of fixed assets of \$1,007,000 and \$322,000. Of this, \$441,000 in the 26 weeks ended May 29, 2004 belongs to the Other Segment and the balance applied to the Apparel Segment. In addition, for the 26 weeks ended May 29, 2004 the Apparel Segment includes \$250,000 reserve for environmental costs.

(in thousands)

[\[Download Table\]](#)

		HOME FASHIONS AND ACCESSORIES	OTHER	TOTAL
26 WEEKS ENDED 05/28/05	APPAREL			
-----	-----	-----	-----	-----
(UNAUDITED)				
Segment assets (1)	\$6,145	\$384	\$1,053	\$7,582
		(in thousands)		
		HOME FASHIONS AND ACCESSORIES	OTHER	TOTAL
26 WEEKS ENDED 05/29/04	APPAREL			
-----	-----	-----	-----	-----
(UNAUDITED)				
External sales	\$17,724	\$2,595	\$4,418	\$24,737
Intersegment sales	1,657	25	96	1,778
Operating income/(loss)	(1,478)	186	1,120	(172)
Segment assets	11,060	941	1,572	13,573
PROFIT OR LOSS (UNAUDITED)	26 WEEKS ENDED 5/29/04			
-----	-----			
Total operating loss for segments		\$ (172)		
Total other income		932		
Income before taxes on income		\$ 760		
		=====		
		HOME FASHIONS AND ACCESSORIES	OTHER	TOTAL
13 WEEKS ENDED 05/29/04	APPAREL			
-----	-----	-----	-----	-----
(UNAUDITED)				
External sales	\$10,734	\$1,362	\$2,500	\$14,596
Intersegment sales	608	10	54	672
Operating income/(loss)	(95)	263	472	640

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

PROFIT OR LOSS (UNAUDITED)	13 WEEKS ENDED 5/29/04

Total operating income for segments	\$ 640
Total other income	542

Income before taxes on income	\$ 1,182
	=====

- (1) As of May 28, 2005, accounts receivable, inventory and plant and equipment are valued at net orderly liquidation value. In addition, other assets were decreased to liquidation value.

7. Commitments and Contingencies

Employment Agreement:

On July 25, 2003, the Company and Mr. Bitensky amended the employment agreement between the Company and Mr. Bitensky dated as of March 1, 1993 to provide that at such time as the Company is sold or liquidated pursuant to the Plan, in lieu of the annual consulting fees due under such an agreement over the five year consulting period provided therein, Mr. Bitensky will receive a lump sum payment equal to the aggregate net present value of each payment due under such agreement, such present value to be determined utilizing the prevailing prime rate at the time of the payment, as determined by the Board. On June 22, 2005, Mr. Bitensky received a lump sum payment of \$1,157,474.

Such amendment to the Employment Agreement also provides that Mr. Bitensky relinquishes his right under the terms of the original agreement to require the Company to purchase upon his death approximately \$10,000,000 of shares of Common Stock from his estate. In consideration of Mr. Bitensky's relinquishing such right, the Company agreed to transfer to Mr. Bitensky ownership of the three life insurance policies on Mr. Bitensky's life owned by the Company.

Other:

The Trust has a letter of credit with its insurance provider for \$100,000.

8. Other Expense:

The Company recorded an accrual of \$250,000 for environmental costs in the quarter ending February 28, 2004. The accrual represents the estimated costs associated with a lagoon cleaning process as per North Carolina State requirements to eliminate odors in a lagoon, which is located next to one of our plants. The lagoon process has been completed and all associated costs associated with this process have been paid.

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**NOTES TO CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (UNAUDITED)**

9. Benefit Plans:

During the first quarter of fiscal 2004, the Company adopted the interim disclosure provisions of SFAS No. 132 (revised 2003), "Employers' Disclosure about Pensions and Other Postretirement Benefits, an Amendment of FASB Statements no. 87, 88 and 106 and a Revision of FASB Statement No. 132".

This statement revises employers' disclosures about pension plans and other post retirement benefit plans. The following table summarizes the components of net periodic benefit cost for the Trust.

(IN THOUSANDS):

	SIX MONTHS ENDED	
	May 28, 2005	May 29, 2004
Service Cost	\$ 72	\$ 80
Interest cost	88	108
Expected return on assets	(70)	(72)
Net loss recognized	10	16
Amortization of prior service cost	18	18
Net periodic benefit cost	\$ 118	\$ 150

The Trust contributed \$320,000 during the period, December 1, 2004 through May 28, 2005. In addition, the Trust contributed \$95,000 on June 15, 2005.

Pension Obligation:

On June 3, 2005, the Pension Benefit Guaranty Corporation ("PBGC") commenced a proceeding to terminate the Retirement Plan as of May 30, 2005, pursuant to the PBGC-initiated termination procedures set out in Section 4042 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The Trust expects that it will soon either (i) agree to termination of the Retirement Plan on the basis proposed by PBGC, or (ii) initiate a so-called "standard" termination under Section 4041 of ERISA. In either such case, the Trust expects that it will pay the underfunding shortfall either to the Retirement Plan (in the case of a standard termination) or to the PBGC on behalf of the Retirement Plan (in connection with a PBGC-initiated termination). Based on estimates recently received from the Trust's actuaries, the termination underfunding shortfall at July 31, 2005 is estimated to be approximately \$2 million. This underfunding shortfall has been included in other liabilities.

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ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The domestic textile industry has been negatively affected by a flow of low cost foreign imports and market conditions since 1998.

In the opinion of management, all adjustments (consisting solely of adjustments to the estimated value of assets and costs of liquidation and other recurring estimates) necessary for a fair statement of the results of the liquidation of the Trust for the interim period have been recorded.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the amounts of revenues and expenses during the reporting period. Examples of such estimates include, but are not limited to, the accounting for contingencies and estimated costs of liquidation, which represents the estimate of the costs to be incurred during liquidation. Actual results could differ from those estimates.

The Company's Board of Directors adopted resolutions dated March 1, 2002, which authorized, subject to stockholders approval, the sale of the Company's business pursuant to a Plan of Liquidation and Dissolution (the "Plan"). The Company's stockholders approved the Plan at the Company's annual meeting on May 30, 2002. Under the Plan, the Company was required to transfer its assets and liabilities to a liquidating trust for the benefit of the Company's stockholders on May 30, 2005, if the Company's business has not been sold by such date.

The Company announced on May 27, 2005 that it entered into a definitive agreement for the "as is, where is" sale, on a going concern basis of all its assets and the assumption of all its liabilities to SSJJJ Manufacturing, LLC, an acquisition vehicle owned by several members of the Company's management, including Steven Myers, the Company's President and Chief Operating Officer ("SSJJJ") at a cash price of \$3.15 per share, for an aggregate consideration of \$16,427,347. The purchase price will be paid at the closing of the transaction by having the Company retain an amount of cash equal to \$16,427,347, with any cash shortfall from such amount to be paid by SSJJJ.

The closing on the asset sale is subject to the Trust, as successor to the Company, reaching final settlement of its previously disclosed shareholder litigation. The Company and the plaintiffs have entered into a Stipulation of Settlement pursuant to which the shareholder litigation will be dismissed if the court approves such settlement. A settlement hearing has been scheduled for September 21, 2005. At the settlement hearing, the court will, among other things, determine whether or not to approve the settlement of the shareholder litigation.

Since the closing of the sale of the Company's assets and liabilities to SSJJJ was subject to the final settlement of the shareholder litigation and could not close on or prior May 30, 2005, all of the Company's assets and liabilities were transferred to a liquidating trust, Fab Industries Trust, on May 27, 2005. In addition, in accordance with the terms of the Plan, the Company's stock transfer books closed effective as of the close of business on May 27, 2005 and its common stock was delisted from trading on the AMEX. Consequently, Friday May 27, 2005, was the last day the Company's common stock traded on the AMEX. The Company also filed its certificate of dissolution, effective as of the close of business on Friday, May 27, 2005, at which time all of the

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Pursuant to the requirements of the Securities Exchange Act of 1934, [the registrant](#) has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: August 11, 2005

FAB INDUSTRIES TRUST

By: /s/ Samson Bitensky

Samson Bitensky, Trustee
(principal executive officer)

By: /s/ David A. Miller

David A. Miller
(principal financial officer)

Dates Referenced Herein and Documents Incorporated by Reference

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Filed on:	8/12/05			
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	7/31/05	<u>10</u>	<u>19</u>	
	6/22/05	<u>18</u>	<u>22</u>	
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Fab Industries Trust – '8-K' for 5/26/05

On: Friday, 5/27/05, at 2:36pm ET · **For:** 5/26/05 · **Accession #:** 950142-5-1615 · **File #:** [1-05901](#)

Previous '8-K': ['8-K'](#) on / for 5/11/05 · **Next & Latest:** ['8-K'](#) on 11/3/05 for 10/31/05

Find in Show and [Help...](#) Wildcards: ? (any letter), * (many). Logic: for Docs: & (and), | (or); for Text: | (anywhere), "(&)" (near). [↓ BOTTOM](#)

<u>As Of</u>	<u>Filer</u>	<u>Filing</u>	<u>For: On: As</u>	<u>Docs: Size</u>	<u>Issuer</u>	<u>Agent</u>
5/27/05	Fab Industries Trust	8-K: 1, 3, 8, 9	5/26/05	4:179K		Paul Weiss Ri...LLP 01/FA

Current Report — Form 8-K **Filing Table of Contents**

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2: EX-99	Exhibit 99.1	39	147K
3: EX-99	Exhibit 99.2	24	88K
4: EX-99	Exhibit 99.3	2	17K

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"	Item 3.01. Notice of Delisting or Failure to Satisfy A Continued Listing Rule or Standard: Transfer of Listing	• Entry Into A Material Definitive Agreement	
"	Item 8.01. Other Events	• Financial Statements and Exhibits	
3	Item 9.01. Financial Statements and Exhibits	• Notice of Delisting or Failure to Satisfy A Continued Listing Rule or Standard: Transfer of Listing	
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 26, 2005

FAB INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation)

1-5901

13-2581181

(Commission File Number)

(IRS Employer Identification No.)

200 MADISON AVENUE, NEW YORK, NEW YORK

10016

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (212) 592-2700

NOT APPLICABLE

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (SEE General Instruction A.2. below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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ITEM 1.01. ENTRY INTO A MATERIAL DEFINITIVE AGREEMENT

(a) On May 26, 2005, Fab Industries, Inc. ("Fab") entered into a definitive agreement for the "as is, where is" sale, on a going concern basis, of all of its assets and the assumption of all of its liabilities to SSJJJ Manufacturing, LLC, an acquisition vehicle owned by several members of the Company's management, including Steven Myers, [the Company's](#) President and Chief Operating Officer ("SSJJJ"), at a cash price of \$3.15 per share, for an aggregate consideration of \$16,427,347. The purchase price will be paid at the closing of the transaction by having Fab retain an amount of cash equal to \$16,427,347, with any cash shortfall from such amount to be paid by SSJJJ. The foregoing description of the sale transaction is qualified in its entirety by reference to the asset purchase agreement, which is furnished as Exhibit 99.1 hereto and incorporated herein in its entirety by reference.

(b) On May 27, 2005, Fab entered into a trust agreement (the "Trust Agreement") pursuant to which Fab will transfer all of its assets and liabilities, including those under the purchase agreement described under paragraph (a) above, to the Fab liquidating trust. The transfer to the trust will be effective as of 5:00 PM New York City time on May 27, 2005. The circumstances relating to the transfer to the liquidating trust are more fully described in Item 8.01 below. The Trust Agreement provides that interests in the trust are not transferable, except transfers by will, intestate succession or by operation of law. The initial trustee of the trust will be Mr. [Samson Bitensky](#), Fab's Chairman and Chief Executive Officer and the trust will have a three year duration. The foregoing description of the Trust Agreement is qualified in its entirety by reference to the Trust Agreement, which is furnished as Exhibit 99.2 hereto and incorporated herein in its entirety by reference.

ITEM 3.01. NOTICE OF DELISTING OR FAILURE TO SATISFY A CONTINUED LISTING RULE OR STANDARD; TRANSFER OF LISTING

On May 27, 2005, Fab filed an application for the delisting of its common stock from The American Stock Exchange ("AMEX"). May 27, 2005, will be the last day Fab's common stock will trade on the AMEX. The circumstances relating to the application for delisting and the cessation of trading are more fully described in Item 8.01 below.

ITEM 8.01. OTHER EVENTS

On May 27, 2005, Fab issued a [press release](#) announcing its entry into a definitive agreement for the sale of all of its assets, its entry into the Trust Agreement, the cessation of the trading of its common stock on the AMEX and certain other matters relating to the foregoing. Under Fab's Plan of Liquidation and Dissolution (the "Plan") that was adopted by [the Company's](#) stockholders on May 30, 2002, Fab is required to transfer its assets and liabilities to a liquidating trust for the benefit of Fab's stockholders on May 30, 2005 if Fab's business has not been sold by such date. The Plan further provides that, upon the transfer of the Fab's assets and liabilities to the trust, Fab's stock transfer books

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will close and its common stock will be delisted from trading on the AMEX. Since May 30, 2005 is not a business day, the transfer to the trust and the delisting of Fab's common stock from AMEX will occur following the close of business on Friday, May 27, 2005. Consequently, Friday, May 27, 2005, will be the last day Fab's common stock will trade on the AMEX. Fab will file its certificate of dissolution, effective as of the close of business on Friday, May, 27, 2005, at which time all of its assets, including the definitive agreement for the sale of the business, and all of Fab's liabilities will be transferred to the liquidating trust. Thereafter, certificates representing shares of Fab common stock will not be assignable or transferable, except by will, intestate succession or by operation of law and the proportionate interests of all of Fab's stockholders in the trust will be fixed on the basis of their respective stock holdings at the close of business on Friday, May 27, 2005. After such date, any distributions made by the trust will be made solely to the stockholders of record of Fab at the close of business on May 27, 2005, except as may be necessary to reflect subsequent transfers by will, intestate succession or by operation of law. A copy of the [press release](#) is furnished as Exhibit 99.3 hereto and incorporated herein in its entirety by reference.

ITEM 9.01. FINANCIAL STATEMENTS AND EXHIBITS

(c) **EXHIBITS**

EXHIBIT NUMBER	DESCRIPTION
Exhibit 99.1	Asset Purchase Agreement dated <u>May 26, 2005</u> .
Exhibit 99.2	Trust Agreement dated <u>May 27, 2005</u> .
Exhibit 99.3	Press release of Fab Industries, Inc. dated <u>May 27, 2005</u> .

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FAB INDUSTRIES, INC.By: /s/ Samson Bitensky

Name: Samson Bitensky
Title: Chairman of the Board and
Chief Executive Officer

Date: May 27, 2005

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INDEX TO EXHIBITS

<u>EXHIBIT NUMBER</u> -----	<u>DESCRIPTION</u> -----
99.1	Asset Purchase Agreement dated <u>May 26, 2005</u> .
99.2	Trust Agreement dated <u>May 27, 2005</u> .
99.3	<u>Press release</u> of Fab Industries, Inc. dated <u>May 27, 2005</u> .

Dates Referenced Herein and Documents Incorporated by Reference

<u>This '8-K' Filing</u>	<u>Date</u>	<u>Referenced-On Page</u>		<u>Other Filings</u>
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	5/30/05	<u>2</u>	<u>3</u>	
Filed on:	5/27/05	<u>2</u>	<u>5</u>	<u>SC 13D/A</u>
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Fab Industries Trust – '8-K' for 5/30/02 – EX-99

On: Thursday, 5/30/02, at 1:44pm ET · **For:** 5/30/02 · **Accession #:** 950142-2-518 · **File #:** [1-05901](#)

Previous '8-K': ['8-K'](#) on 3/4/02 for 3/1/02 · **Next:** ['8-K'](#) on / for 2/28/03 · **Latest:** ['8-K'](#) on 11/3/05 for 10/31/05

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<u>As Of</u>	<u>Filer</u>	<u>Filing</u>	<u>For·On·As</u>	<u>Docs:Size</u>	<u>Issuer</u>	<u>Agent</u>
5/30/02	Fab Industries Trust	8-K:5,7	5/30/02	2:7K		Paul Weiss Ri..LLP 01/FA

Current Report — Form 8-K Filing Table of Contents

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EX-99 — Exhibit 99.1



EXHIBIT 99.1

FAB INDUSTRIES, INC.

NEW YORK, N.Y. -- May 30, 2002 - Fab Industries, Inc. (AMEX: FIT), a manufacturer of warp and circular knit fabrics, raschel laces and laminated fabrics, announced that at its annual meeting of stockholders earlier today its stockholders overwhelmingly approved a plan for a sale of Fab Industries' business in the context of a corporate liquidation. The Company's Board of Directors met immediately after the annual meeting and declared an initial liquidating distribution of \$10.00 per share, to be payable on June 24, 2002 with a record date of June 10th.

As previously announced, in light of the ongoing economic slowdown - particularly in the domestic textile industry - and diminishing revenues, Fab Industries has been engaged in a concerted effort to explore various strategic alternatives. In order to maximize stockholder value, the Company plans to sell its business and will do so as part of a plan of liquidation. The Company believes that in this way it will be able to distribute its large cash position, as well as the proceeds of any sale, to stockholders promptly and in a tax advantageous manner. Fab Industries will continue to operate its business pending a sale as its management feels that a sale of an on-going business will maximize stockholder value.

The Company today also reported the re-election of Lawrence H. Bober, Martin B. Bernstein and Steven Myers to its Board of Directors.

Except for the historical information contained herein, the matters discussed in this news release are forward-looking statements and may include words such as "anticipates," "believes," "plans," "expects," "future," "intends" and similar expressions. These forward-looking statements are not guarantees of future performance and are subject to certain risks and uncertainties that could cause actual results to differ materially from those expressed or forecasted in such forward-looking statements. No assurance can be given that Fab Industries will be successful in pursuing a sale of its assets, or that the plan of liquidation and dissolution will actually increase stockholder value. Fab Industries may not be able to find qualified buyers for its assets. Other potential risks and uncertainties include, without limitation, the Company's ability to support demand for its goods and services; material contingencies provided for in a sale of assets; amendment, delay in implementation or termination of any plan to sell assets and subsequently wind down Fab Industries' business; delisting of Fab Industries' stock from The American Stock Exchange; the Company's ability to retain key employees through the wind down period; and litigation arising as a result of Fab Industries' plan to wind down its operations. Fab Industries does not undertake any obligation to publicly update any forward-looking statements to reflect events or circumstances after the date on which any such statement is made or to reflect the occurrence of unanticipated events.

###

CONTACT INFORMATION:

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President and Chief Operating Officer
Fab Industries, Inc.
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sem4@msn.com

James Dubin
Partner
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jdubin@paulweiss.com

Dates Referenced Herein

<u><i>This '8-K' Filing</i></u>	<u><i>Date</i></u>	<u><i>Other Filings</i></u>
	6/24/02	None on these Dates
Filed on / For Period End:	5/30/02	

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Filing Submission 0000950142-02-000518 - [Alternative Formats \(Word / Rich Text, HTML, Plain Text, et al.\)](#)

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Fab Industries Trust – '8-K' for 5/26/05 – EX-99

On: Friday, 5/27/05, at 2:36pm ET · **For:** 5/26/05 · **Accession #:** 950142-5-1615 · **File #:** [1-05901](#)

Previous '8-K': ['8-K' on / for 5/11/05](#) · **Next & Latest:** ['8-K' on 11/3/05 for 10/31/05](#)

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5/27/05	Fab Industries Trust	8-K:1,3,8,9	5/26/05	4:179K		Paul Weiss Ri...LLP 01/FA

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THE CONNECT NC BOND

Why It Matters →

EXHIBIT 99.1

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ASSET PURCHASE AGREEMENT

by and between

FAB INDUSTRIES, INC.

and

SSJJJ MANUFACTURING CO., LLC

Dated as of May 26, 2005

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ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT, dated as of May 26, 2005 (this "AGREEMENT"), by and between FAB INDUSTRIES, INC., a Delaware corporation (the "SELLER"), and SSJJJ MANUFACTURING CO., LLC, a Delaware limited liability company (the "BUYER").

WHEREAS, the Seller and the Seller Subsidiaries (as defined herein) own and operate a textile manufacturing business that produces warp and circular knit fabrics, raschel laces and laminated fabrics and makes, among other products, blankets, sheets and other bedding products (the "BUSINESS");

WHEREAS, on March 1, 2002, the Seller's board of directors (the "SELLER BOARD") approved a Plan of Liquidation and Dissolution of the Seller (the "DISSOLUTION PLAN");

WHEREAS, the Dissolution Plan was approved by the stockholders of the Seller at the Company's annual meeting on May 30, 2002 and, pursuant to the Dissolution Plan, if the Seller is not liquidated and dissolved by May 30, 2005 (the "LIQUIDATION DATE"), all the assets and liabilities of the Seller will be transferred on the Liquidation Date to, and assumed by, one or more trustees (the "TRUSTEES"), for the benefit of the stockholders of the Seller, under an irrevocable liquidating trust formed under the laws of the State of Delaware (the "TRUST");

WHEREAS, pursuant to certain Bidding Procedures of a special committee of the Seller Board (the "SPECIAL COMMITTEE") distributed to the Buyer on or about May 18, 2005 (the "BIDDING PROCEDURES"), on the date hereof, the Buyer delivered to the Seller a good faith deposit in the amount of \$500,000 (the "GOOD FAITH DEPOSIT").

WHEREAS, the Seller wishes to sell, convey, assign and otherwise transfer to the Buyer, and the Buyer wishes to purchase from the Seller, on a going concern basis and on an "as is, where is" basis, all of the Seller's assets (except the Excluded Assets (as defined herein)) and to assume all of the Seller's obligations and liabilities on the terms and conditions set forth in this Agreement;

WHEREAS, as soon as practicable following the consummation of the transactions contemplated by this Agreement, the Seller or the Trust, as the case may be, intends to distribute all or a portion of the Retained Purchase Price Cash (as defined herein) to the Seller's stockholders in the form of a liquidation distribution; and

WHEREAS, the Seller Board, based upon the unanimous favorable recommendation of the Special Committee, has (i) determined that the transactions contemplated herein are in the best interests of the Seller and (ii) approved this Agreement and the transactions contemplated herein.

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NOW, THEREFORE, in consideration of the mutual agreements set forth herein and for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I

DEFINITIONS

1.1 DEFINED TERMS. As used in this Agreement, and unless the context requires a different meaning, the following terms have the meanings indicated:

"ACCOUNTS" has the meaning set forth in Section 2.1(o) of this Agreement.

"ACQUISITION PROPOSAL" has the meaning set forth in Section 7.2(b) of this Agreement.

"AFFILIATE" shall mean any Person who is an "affiliate" as defined in Rule 12b-2 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

"AGREEMENT" has the meaning set forth in the preamble to this Agreement.

"APPLICABLE LAW" means, as to any Person, any law, statute, ordinance, treaty, rule, regulation, code, right, privilege, qualification, license or franchise or determination enacted, adopted, promulgated or applied by an arbitrator or a court or other Governmental Authority or stock exchange, in each case applicable or binding upon such Person or any of its assets or properties or to which such Person or any of its assets or properties is subject or pertaining to any or all of the transactions contemplated herein.

"ASSIGNMENT AND ASSUMPTION AGREEMENT" means an Assignment and Assumption Agreement in a form reasonably satisfactory to the Buyer and Seller.

"ASSUMED LIABILITIES" has the meaning set forth in Section 2.5 of this Agreement.

"BENEFIT PLAN" means any plan, program, arrangement or agreement that is a pension, profit-sharing, savings, retirement, employment, consulting, severance pay, termination, executive compensation, incentive compensation, deferred compensation, bonus, stock purchase, stock option, phantom stock or other equity-based compensation, change-in-control, retention, salary continuation, vacation, sick leave, disability, death benefit, group insurance, hospitalization, medical, dental, life (including all individual life insurance policies as to which the Seller or the Seller Subsidiaries is the owner, the beneficiary, or both), Code Section 125 "cafeteria" or "flexible" benefit, employee loan, educational assistance or fringe benefit plan, program, policy or agreement whether written or oral, including, without limitation, any (i) "employee benefit plan" within the meaning of Section 3(3) of ERISA or (ii) other employee benefit plan, agreement,

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program, policy, arrangement or payroll practice, whether or not subject to ERISA (including any funding mechanism therefor now in effect or required in the future as a result of the transaction contemplated by this Agreement or otherwise) which the Seller or any Seller Subsidiary maintains or contributes to or in respect of which the Seller or any Seller Subsidiary has any obligation to maintain or contribute, or have any direct or indirect liability, whether contingent or otherwise, with respect to which any Employee or Former Employee has any present or future right to benefits.

"BIDDING PROCEDURES" has the meaning set forth in the recitals to this Agreement.

"BILL OF SALE" means a Bill of Sale in a form reasonably satisfactory to the Buyer and Seller.

"BUSINESS" has the meaning set forth in the recitals to this Agreement.

"BUSINESS DAY" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in New York, New York are authorized or required by law or executive order to close.

"BUYER" has the meaning set forth in the preamble to this Agreement.

"BUYER EXPENSES" has the meaning set forth in Section 10.4(b) of this Agreement.

"BUYER RESTRICTED PAYMENTS" means any (i) dividend or other payment or distribution, direct or indirect, on account of any shares of any class of capital stock of the Buyer (including any payment in connection with any dissolution, liquidation, merger, consolidation or disposition involving the Buyer), (ii) any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of capital stock or other securities of the Buyer, or any rights to any class of capital stock or other securities of the Buyer or (iii) payment made to retire, or to obtain the surrender of, any warrants, options or other rights to acquire shares of any class of capital stock or other securities of the Buyer.

"CASH PURCHASE PRICE" has the meaning set forth in Section 2.3 of this Agreement.

"CLOSING" has the meaning set forth in Section 9.1 of this Agreement.

"CLOSING DATE" has the meaning set forth in Section 9.1 of this Agreement.

"COBRA" has the meaning set forth in Section 5.3(f) of this Agreement.

"CODE" means the U.S. Internal Revenue Code of 1986, as amended.

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"CONTRACTS" means any written or oral agreement, arrangement, understanding, undertaking, lease, sublease, purchase order, instrument, indenture, or other Contractual Obligations or similar arrangement or commitment.

"CONTRACTUAL OBLIGATIONS" means, as to any Person, any provision of any Contract to which such Person is a party or by which it or any of its assets or properties are contractually bound.

"COURT" has the meaning set forth in Section 8.1(e) of this Agreement.

"DISSOLUTION PLAN" has the meaning set forth in the recitals to this Agreement.

"EMPLOYEE" has the meaning set forth in Section 5.1 of this Agreement.

"ENVIRONMENTAL LAWS" means federal, state, foreign or local laws, regulations, codes, plans, orders, decrees, judgments, notices or demand letters relating to pollution, protection of the environment, public or worker health and safety, or emissions, discharges, releases or threatened releases of pollutants, noise, contaminants or hazardous or toxic materials or wastes into ambient air, surface water, ground water or land, or otherwise relating to the manufacture, processing, distribution, use, presence, production, labeling, testing, treatment, storage, disposal, transport or handling of pollutants, contaminants or hazardous or toxic materials or wastes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"EXCLUDED ASSETS" has the meaning set forth in Section 2.2.

"FAIRNESS OPINION" means the opinion received by the Seller from the Financial Advisor stating that the Buyer's offer is fair to the Seller's stockholders from a financial point of view.

"FINANCIAL ADVISOR" means McFarland Dewey & Co., LLC, a qualified independent financial advisor retained by the Special Committee.

"FORMER EMPLOYEE" means any person who, at any time prior to the Closing, was an employee of the Seller or any Seller Subsidiary, but who is not an Employee.

"GOOD FAITH DEPOSIT" has the meaning set forth in the recitals to this Agreement.

"GOVERNMENTAL AUTHORITY" means the government of any nation, state, city, locality or other political subdivision thereof, any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to

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government, and any corporation or other entity owned or controlled, through stock or capital ownership or otherwise, by any of the foregoing.

"HIPAA" has the meaning set forth in Section 5.3(f) of this Agreement.

"INDEMNIFICATION NOTICE" has the meaning set forth in Section 11.3(a) of this Agreement.

"INDEMNIFIED PERSON" has the meaning set forth in Section 7.3(a) of this Agreement.

"INDEMNITEE" has the meaning set forth in Section 11.3(a) of this Agreement.

"LIQUIDATION DATE" has the meaning set forth in the recitals to this Agreement.

"LOAN" means one or more loans to be made on or before the Closing Date from Samson Bitensky, or an Affiliate of his, to the Buyer in the aggregate principal amount of \$4,000,000, which loan(s) (i) will be subordinate to the Assumed Liabilities, (ii) shall not be repaid or repayable, with respect to principal, under any circumstances prior to the third year anniversary of the Closing Date, (iii) shall bear interest at a rate no higher than that charged by commercial institutional lenders in New York, New York for loans to financially viable operating businesses and (iv) may be secured, subject to the aforesaid subordination, by certain assets of the Buyer and the outstanding shares of the Buyer's stock.

"LOSING BIDDER" means any Person and that Person's Affiliates, other than the Buyer and the Buyer's Affiliates, which submitted, or was furnished with the Bidding Procedures by or on behalf of the Special Committee for the purpose of submitting, an Acquisition Proposal pursuant to the Bidding Procedures, which shall include for the avoidance of doubt Ladd Cap Partners, L.P., Salvatore Muolo and their respective Affiliates.

"LOSSES" means any claim, loss, liability, damage, cost or expense (including interest, penalties, reasonable attorneys' fees, disbursements, including those incurred in connection with investigative, administrative or judicial proceedings commenced or threatened, whether or not such person shall be designated a party thereby and those incurred in connection with any claim for indemnity under this Agreement).

"MEMORANDUM OF UNDERSTANDING" means that certain Memorandum of Understanding, dated as of the date hereof, relating to the Shareholder Litigation.

"NEWCO" has the meaning set forth in Section 11.5.

"NONTRANSFERABLE CONTRACTS" has the meaning set forth in Section 7.6 (b) of this Agreement.

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"PARTY" means each of the Seller and the Buyer

"PARTIES" means the Seller and the Buyer.

"PBGC" has the meaning set forth in Section 7.1(c) of this Agreement.

"PERSON" means any individual, firm, corporation, partnership, trust, incorporated or unincorporated association, joint venture, joint stock company, limited liability company, limited liability partnership, Governmental Authority or other entity of any kind, and shall include any successor (by merger or otherwise) of such entity.

"PURCHASED ASSETS" has the meaning as set forth in Section 2.1 of this Agreement.

"REAL PROPERTY" has the meaning set forth in Section 2.1(d) of this Agreement.

"RETAINED CASH" means an amount equal to the sum of the Retained Purchase Price Cash and the Retained Wind-Down Cash.

"RETAINED PURCHASE PRICE CASH" has the meaning set forth in Section 2.2(a) of this Agreement.

"RETAINED WIND-DOWN CASH" has the meaning set forth in Section 2.2(b) of this Agreement.

"SELLER" has the meaning set forth in the preamble to this Agreement.

"SELLER BOARD" has the meaning set forth in the recitals to this Agreement.

"SELLER EXPENSES" means all out-of-pocket costs and expenses of the Seller (including in respect of the actions of the Special Committee) or the Trust incurred on or prior to the Closing in connection with the Dissolution Plan, the Shareholder Litigation, general corporate matters (including with respect to public filings and meetings of board of directors), this Agreement and the transactions contemplated hereby, including (i) all fees and expenses of Paul, Weiss, Rifkind, Wharton & Garrison, LLP, (ii) all fees and expenses of McFarland Dewey & Co., LLC (iii) all fees and expenses of Fish & Richardson P.C., (iv) fees and expenses of BDO Seidman, (v) all fees and expenses of Richards, Layton & Finger and (vi) all fees and expenses of Morris, Nichols, Arsht & Tunnell.

"SELLER INDEMNIFIED PARTIES" has the meaning set forth in Section 11.2 of this Agreement.

"SELLER INDEMNIFIED PARTY" has the meaning set forth in Section 11.2 of this Agreement.

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"**SELLER RESTRICTED PAYMENTS**" means any (i) dividend or other payment or distribution, direct or indirect, on account of any shares of any class of capital stock of the Seller (including any payment in connection with any dissolution, liquidation, merger, consolidation or disposition involving the Seller), (ii) issuance of any class of capital stock of the Seller or other securities of the Seller or any redemption, retirement, sinking fund or similar payment, purchase or other acquisition for value, direct or indirect, of any shares of any class of capital stock or other securities of the Seller, or any rights to any class of capital stock or other securities of the Seller or (iii) payment made to retire, or to obtain the surrender of, any warrants, options or other rights to acquire shares of any class of capital stock or other securities of the Seller.

"**SELLER SUBSIDIARY**" means each of (i) Adirondack Knitting Mills, Inc., a New York corporation, (ii) Fab-Lace, Inc., a New York corporation, (iii) GEM Urethane Corp., a New York corporation, (iv) Lamatronics Industries, Inc., a New York corporation, (v) Mohican Mills, Inc., a New York corporation, (vi) Salisbury Manufacturing Corp., a North Carolina corporation, (vii) Sandel International, Inc., a New York corporation, (viii) SMS Textiles, Inc., a Delaware corporation and (ix) Travis Knits, Inc., a North Carolina corporation.

"**SELLER SUBSIDIARY STOCK**" means the capital stock of each Seller Subsidiary.

"**SHAREHOLDER LITIGATION**" means those two putative class action lawsuits styled BELANGER V. FAB INDUSTRIES, INC., et al., C.A. No. 054-N and LEVY V. BITENSKY, ET AL., filed by stockholders of the Seller.

"**SPECIAL COMMITTEE**" has the meaning set forth in the recitals to this Agreement.

"**SUBSIDIARY**" means with respect to any Person, a corporation or other Person of which such Person either (i) owns, directly or indirectly, 50% or more of the outstanding voting equity securities or 50% or more of the outstanding economic equity interest, (ii) in the case of a partnership, serves as a general partner, (iii) in the case of a limited liability company, serves as a managing member, or (iv) otherwise has the ability to elect a majority of the directors, trustees or managing members thereof.

"**SUPERIOR PROPOSAL**" has the meaning set forth in Section 7.2(f) of this Agreement.

"**TAX OR TAXES**" means (i) any and all federal, state, provincial, local, foreign and other taxes, levies, fees, imposts, duties, and similar governmental charges (including any interest, fines, assessments, penalties or additions to tax imposed in connection therewith or with respect thereto) including (x) taxes imposed on, or measured by, income, franchise, profits or gross receipts, and (y) ad valorem, value added, capital gains, sales, goods and services, use, real or personal property, capital stock, license, branch, payroll, estimated withholding, employment, social security (or similar), unemployment, compensation, utility, severance, production, excise, stamp,

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occupation, premium, windfall profits, transfer and gains taxes, and customs duties, and (ii) any transferee liability in respect of any items described in clause (i) above.

"TERMINATION FEE" has the meaning set forth in Section 10.4(b) of this Agreement.

"THIRD PARTY CLAIM" has the meaning set forth in Section 11.3(a) of this Agreement.

"TITLE IV PLAN" has the meaning set forth in Section 7.1(c) of this Agreement.

"TRADEMARK ASSIGNMENT AGREEMENT" means a Trademark Assignment Agreement in a form reasonably satisfactory to the Buyer and Seller.

"TRANSACTION DOCUMENTS" means, collectively, this Agreement, the Assignment and Assumption Agreement, the Bill of Sale, the Trademark Assignment Agreement and any ancillary documents, schedules and agreements executed in connection with, or required to be delivered by, this Agreement.

"TRANSFERRED EMPLOYEE" has the meaning set forth in Section 5.1 of this Agreement.

"TRUST" has the meaning set forth in the recitals to this Agreement.

"TRUST ASSUMPTION AGREEMENT" has the meaning set forth in Section 7.7 of this Agreement.

"TRUSTEES" has the meaning set forth in the recitals to this Agreement.

"WARN" has the meaning set forth in Section 5.2(e) of this Agreement.

1.2 INTERPRETATION.

(a) Any capitalized terms used in any Schedule or Exhibit but not otherwise defined therein shall have the meaning as defined in this Agreement.

(b) When a reference is made in this Agreement to a Section, Article, Exhibit or Schedule, such reference shall be to a Section or Article of, or an Exhibit or Schedule to, this Agreement unless otherwise indicated.

(c) "Hereof," "hereto," "hereunder," "herein," and similar expressions mean and refer to this Agreement and not to any particular article or Section or subsection, and "Article," "Section," "subsection," "paragraph," "Schedule," or "Exhibit," mean and refer to the specified Article, Section, subsection, paragraph of, Schedule or Exhibit to this Agreement.

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(d) Unless the context otherwise requires, the words "include," "includes," and "including" do not limit the preceding words or terms and shall be deemed to be followed by the words "without limitation."

ARTICLE II

PURCHASE AND SALE OF THE BUSINESS

2.1 **AGREEMENT TO SELL AND BUY.** Upon the terms and subject to the conditions of this Agreement, at the Closing and with effect as of the Closing Date, the Seller shall sell, assign, transfer, convey and deliver to the Buyer, and the Buyer shall acquire from the Seller, on a going concern basis and on an "as is, where is" basis, all of the right, title and interest of the Seller in and to all of the assets, properties, rights and business of the Seller as of the Closing Date of every kind, nature, type and description, real, personal and mixed, tangible and intangible, wherever located, whether known or unknown, fixed or unfixed, or otherwise, whether or not specifically referred to in this Agreement and whether or not reflected on the books and records of the Seller, other than the Excluded Assets (collectively, the "PURCHASED ASSETS"). Without limiting the generality of the foregoing, the Purchased Assets shall include the following:

- (a) all accounts receivable of the Seller;
- (b) all inventories, finished goods, trim, work-in-process, components, raw materials and any other inventory;
- (c) all rights under all Contracts to which the Seller is a party or may be bound or receives benefits or by which the Purchased Assets may be affected or receive benefits;
- (d) all rights, title and interest in and to all the real property owned and/or leased by the Seller (the "REAL PROPERTY");
- (e) all assets, furniture, fixtures and property located on the Real Property, of every kind and nature and description, whether tangible or intangible, real, personal or mixed;
- (f) all licenses, registrations, franchises, qualifications, provider numbers, permits, approvals and authorizations issued by any Governmental Authority;
- (g) all lists, documents, records, written information, computer files and other computer readable media concerning past, present and potential customers and purchasers of goods or services from the Seller;

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(h) all lists, documents, records, written information, computer files and other computer readable media concerning past, present and potential suppliers and vendors of goods or services to the Seller;

(i) all product records, customer correspondence, production records, contract files, technical, accounting, manufacturing and procedural manuals, employment records, studies, reports or summaries relating to the general condition of the Purchased Assets, and any confidential information which has been reduced to writing or electronic form;

(j) all rights under express or implied warranties from the suppliers and vendors relating to the Purchased Assets and all rights, demands, claims, credit, insurance casualty proceeds, causes of action, relating to the Purchased Assets;

(k) all unfilled orders or proposals received for inventory or merchandise of the Seller;

(l) all intellectual property (including the goodwill associated therewith) of the Seller and all trade secrets, designs, prototypes, patterns and other design materials owned or used by the Seller;

(m) all ownership or other rights of the Seller with respect to assets relating to any Benefit Plan (to the extent not prohibited by the PBGC) and any other liability or obligation assumed by the Buyer pursuant to Article V (Employee Matters);

(n) the Seller Subsidiary Stock;

(o) all rights of the Seller under the bank accounts and investment accounts listed on SCHEDULE 2.1(O) (the "ACCOUNTS"), other than the Retained Cash in the Accounts; and

(p) all rights, claims and causes of action of the Seller relating to the assets referred to in any of the preceding clauses (a) through (o) of this Section 2.1.

2.2 EXCLUDED ASSETS. The Seller shall retain its respective right, title and interest in and to, and the Buyer shall have no rights with respect to, the following assets (collectively, the "EXCLUDED ASSETS"):

(a) an amount of cash in the Accounts equal to \$16,427,347, which amount includes the Good Faith Deposit (collectively, the "RETAINED PURCHASE PRICE CASH");

(b) an amount of cash in the Accounts equal to \$200,000 to be used by Seller or the Trust to pay the costs, expenses and other obligations pursuant to the Dissolution Plan following the Closing of the transaction contemplated by this Agreement (the "RETAINED WIND-DOWN CASH");

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(c) the articles of incorporation and by-laws of the Seller and all corporate minute books, stock books, corporate seals, stock transfer books, and other corporate records relating to the corporate organization and capitalization of the Seller, as well as books and records required by any Applicable Law in connection with the final liquidation of the Seller (provided that Seller shall provide to the Buyer copies of all such documents that the Buyer may reasonably request); and

(d) all rights of the Seller under the Transaction Documents and the Dissolution Plan.

2.3 PURCHASE PRICE. The purchase price for the Purchased Assets shall be an amount equal to \$16,427,347 (the "CASH PURCHASE PRICE") plus the assumption by the Buyer of the Assumed Liabilities.

2.4 PAYMENT OF CASH PURCHASE PRICE. The Cash Purchase Price shall be paid by the Buyer to the Seller by having the Seller retain the Retained Purchase Price Cash in an amount equal to the Cash Purchase Price (it being understood and agreed that by the Seller retaining such amount, the Good Faith Deposit will have been credited and applied to the Cash Purchase Price); PROVIDED that if, at Closing, the actual amount of cash in the Accounts (after deducting the Retained Wind-Down Cash and the Seller Expenses) is less than the Cash Purchase Price, then the Buyer shall pay the shortfall to the Seller in cash at Closing by wire transfer of immediately available funds to an account designated by Seller.

2.5 ASSUMPTION OF LIABILITIES AND OBLIGATIONS. Upon the terms and subject to the conditions of this Agreement, in partial consideration of the transfer, conveyance and assignment to the Buyer of the Purchased Assets pursuant to the Assignment and Assumption Agreement, at the Closing, the Buyer shall assume, pay, perform and discharge all of the obligations and liabilities of the Seller and each Seller Subsidiary, direct or indirect, known or unknown, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise, whether arising on or prior to the Closing Date or on or after the Closing Date (collectively, the "ASSUMED LIABILITIES") and the Buyer shall defend and hold the Seller harmless with respect to the Assumed Liabilities. For the avoidance of doubt, the term Assumed Liabilities includes all liabilities and obligations of the Seller and each Seller Subsidiary (including liabilities and obligations imposed by operation of law) other than to costs and expenses of liquidating the Seller after the Closing pursuant to the Dissolution Plan (which are not being assumed hereunder by the Buyer). Without limiting the generality of the foregoing, the Assumed Liabilities shall include the following obligations and liabilities of the Seller and each Seller Subsidiary:

(a) any liability or obligation of the Seller and each Seller Subsidiary arising out of or in connection with the negotiation and preparation of any of the Transaction Documents or the consummation and performance of the transactions contemplated hereby, including any liability for Taxes so arising;

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(b) any liability or obligation under the Contractual Obligations of the Seller and each Seller Subsidiary;

(c) any liability or obligation of the Seller and each Seller Subsidiary arising (i) from its failure to perform, or its negligent performance of, its obligations under, or (ii) out of or relating to any breach or claim of breach of a representation, warranty, covenant or agreement of the Seller and each Seller Subsidiary contained in, any Contractual Obligation of the Seller and each Seller Subsidiary, as the case may be;

(d) any liability, obligation or expense of any kind or nature for or relating to any and all past, present or future Taxes owed by the Seller and each Seller Subsidiary or otherwise (including any liabilities, obligations and expenses pursuant to any tax sharing agreement, tax indemnification or similar arrangement);

(e) any liability or obligation of the Seller and each Seller Subsidiary to any of its present or former directors or officers;

(f) any liability, obligation, cost or expense of the Seller, each Seller Subsidiary or any of their Affiliates arising out of or relating to any claim, action, suit, complaint, dispute, demand, litigation or judicial, administrative or arbitration proceeding (collectively, "LITIGATION") to which the Seller or any Seller Subsidiary is or was a party (regardless of whether the Litigation is commenced before or after the Closing and whether or not it relates to or arises out of the Business), including the Shareholder Litigation;

(g) any liability or obligation of the Seller and each Seller Subsidiary with respect to any indebtedness or contingent obligations, including any accrued interest, fees and any penalties thereon;

(h) any liability or obligation of the Seller and each Seller Subsidiary to or with respect to Employees, Former Employees, consultants and former consultants, Benefit Plans and other employee and employment-related liabilities or obligations with respect to the Business, including, without limitation, any liability or obligation under any employment agreement (including the Employment Agreement dated March 1, 1993 by and between the Seller and Samson Bitensky, as amended) or any other similar agreement, and any liability or obligation assumed by the Buyer in accordance with Article V (Employee Matters);

(i) any accounts payable of the Seller and each Seller Subsidiary;

(j) any product liability or product warranty with respect to any product manufactured, produced or sold by the Seller (or any successor thereof) and each Seller Subsidiary (or any successor thereof); or

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(k) any liability or obligation of the Seller and each Seller Subsidiary arising out of or relating to any Environmental Laws.

The Buyer's obligation to assume and discharge the Assumed Liabilities shall not be subject to offset of any kind, including by reason of any actual or alleged breach of any representation, warranty or covenant contained in any Transaction Document.

ARTICLE III

REPRESENTATIONS AND WARRANTIES OF THE SELLER

The Seller represents and warrants to the Buyer on the date hereof and on the Closing Date as follows:

3.1 ORGANIZATION, STANDING AND AUTHORITY. The Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. The Seller has all requisite power, legal right and corporate authority to execute and deliver each Transaction Document to which it is a party, and to perform fully its obligations under the Transaction Documents to which it is a party. The Seller (a) has all requisite corporate power and lawful authority to own, lease and operate the Business and its assets and (b) is qualified to transact business and is in good standing in each jurisdiction in which the nature of the Business or location of its assets would require such qualification, except where the failure to so qualify would not, individually or in the aggregate, have a material adverse effect on the conduct of the Business following the Closing.

3.2 AUTHORIZATION AND BINDING OBLIGATION. Each of the Transaction Documents to which the Seller is a party has been duly authorized by all necessary action on the part of the Seller. Each of the Transaction Documents to which the Seller is a party has been duly executed and delivered by the Seller and, assuming the due execution and delivery by the other parties hereto and thereto, is the legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms.

3.3 GOVERNMENTAL AUTHORIZATION. No approval or consent of any Governmental Authority is required in connection with the execution and delivery by the Seller of the Transaction Documents and the consummation and performance by the Seller of the transactions contemplated by the Transaction Documents.

3.4 NONCONTRAVENTION. The execution and delivery of the Transaction Documents by the Seller and the performance by the Seller of the transactions contemplated by the Transaction Documents: (a) will not conflict with the Seller's organizational documents; or (b) will not conflict with, result in a breach of, or constitute a default under any Applicable Law.

3.5 THIRD-PARTY CLAIMS. As of the date hereof, other than the Shareholder Litigation, there is no dispute, action, suit, proceeding or investigation of any

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nature pending or, to the Seller's knowledge, threatened against or affecting the Seller or any of its Affiliates that, in the aggregate, challenges the validity, legality or enforceability of this Agreement or would be reasonably likely to prevent, delay or impair the transactions contemplated hereby.

3.6 NO BROKER. Other than payments to the Financial Advisor, neither the Seller nor any Person acting on behalf of the Seller has paid or become obligated to pay any fee or commission to any broker, finder or agent with respect to the transactions contemplated hereby.

3.7 NO ADDITIONAL REPRESENTATIONS. THE BUYER HEREBY ACKNOWLEDGES THAT NEITHER THE SELLER, NOR ANY OTHER PERSON, HAS MADE OR IS MAKING, AND THE BUYER HAS NOT RELIED ON, ANY REPRESENTATIONS OR WARRANTIES, EXPRESS OR IMPLIED, WITH RESPECT TO ANY MATTERS, DIRECTLY OR INDIRECTLY CONCERNING THE PURCHASED ASSETS, THE ASSUMED LIABILITIES OR THE BUSINESS, INCLUDING BUT NOT LIMITED TO, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, VALUE OR CONDITION AND THAT ALL OF THE PURCHASED ASSETS (A) ARE SOLD TO THE BUYER ON AN "AS IS, WHERE IS" CONDITION, WITHOUT RECOURSE AND (B) IN ALL CASES ARE SOLD WITHOUT ANY REPRESENTATION OR WARRANTY, EXPRESSED OR IMPLIED, INCLUDING ANY IMPLIED REPRESENTATION OR WARRANTY AS TO MERCHANTABILITY, FITNESS FOR ANY PARTICULAR PURPOSE OR COLLECTABILITY WITH RESPECT TO THE PURCHASED ASSETS, OTHER THAN THE REPRESENTATIONS AND WARRANTIES SET FORTH IN SECTIONS 3.1, 3.2, 3.3, 3.4, 3.5 AND 3.6, WHICH REPRESENTATIONS SHALL NOT SURVIVE THE CLOSING.

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**ARTICLE IV
REPRESENTATIONS AND WARRANTIES OF THE BUYER**

The Buyer represents and warrants to the Seller on the date hereof and on the Closing Date as follows:

4.1 ORGANIZATION, STANDING AND AUTHORITY. The Buyer is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Delaware. The Buyer has all requisite power, legal right and authority to execute and deliver each Transaction Document to which it is a party, and to perform fully its obligations under the Transaction Documents to which it is a party. The Buyer (a) has all requisite power and lawful authority to own, lease and operate the Business and Purchased Assets and to satisfy the Assumed Liabilities and to carry on the Business and (b) is qualified to transact business and is in good standing in each jurisdiction in which the nature of the Business or location of the Purchased Assets requires such qualification, except where the failure to so qualify would not, individually or in the aggregate, have a material adverse effect on the conduct of the Business following the Closing.

4.2 AUTHORIZATION AND BINDING OBLIGATION. Each of the Transaction Documents to which the Buyer is a party has been duly authorized by all necessary action on the part of the Buyer. Each of the Transaction Documents to which the Buyer is a party has been duly executed and delivered by the Buyer and, assuming the due execution and delivery by the other parties hereto and thereto, is the legal, valid and binding obligation of the Buyer, enforceable against the Buyer in accordance with its terms.

4.3 GOVERNMENTAL AUTHORIZATION. No approval or consent of any Governmental Authority is required in connection with the execution and delivery by the Buyer of the Transaction Documents and the consummation and performance by the Buyer of the transactions contemplated by the Transaction Documents.

4.4 NONCONTRAVENTION. The execution and delivery of the Transaction Documents by the Buyer and the performance by the Buyer of the transactions contemplated by the Transaction Documents: (a) do not require the consent of any other Person; (b) will not conflict with the Buyer's organizational documents; or (c) will not conflict with, result in a breach of, or constitute a default under, any Applicable Law.

4.5 THIRD-PARTY CLAIMS. Other than the Shareholder Litigation, there is no dispute, action, suit, proceeding or investigation of any nature pending or, to the Buyer's knowledge, threatened against or affecting the Buyer or any of its Affiliates that, in the aggregate, challenges the validity, legality or enforceability of this Agreement or would be reasonably likely to prevent, delay or impair the transactions contemplated hereby.

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4.6 NO BROKER. Neither the Buyer nor any Person acting on behalf of the Buyer has paid or become obligated to pay any fee or commission to any broker, finder or agent with respect to the transactions contemplated hereby.

4.7 CAPITALIZATION. The sole members of the Buyer are Steven Myers and Samuel Hiatt. On or prior to the Closing Date, the proceeds of the Loan shall be credited to a bank account of the Buyer.

4.8 SUFFICIENT FUNDS. On the Closing Date, the Buyer will have sufficient cash, including the proceeds of the Loan, to enable it to satisfy the Assumed Liabilities as they come due in accordance with their terms. The Buyer will have sufficient liquidity following the Closing and for the duration of any applicable statute of limitations governing each of the Assumed Liabilities to discharge the Assumed Liabilities as they come due and in accordance with their terms.

4.9 BUYER'S RELIANCE. The Buyer acknowledges that it and its representatives have been permitted full and complete access to the books and records, facilities, equipment, contracts, insurance policies (or summaries thereof) and other properties and assets of the Seller or the Seller Subsidiaries that their respective representatives have desired or requested to see or review, and that it and its representatives have had a full opportunity to meet with the officers and employees of the Seller to discuss the Business. The Buyer acknowledges that the Seller has not made and the Buyer is not relying on any representation or warranty, expressed or implied (except for those representations and warranties set forth in the Trust Assumption Agreement and in Sections 3.1 through 3.6), as to the accuracy or completeness of any information regarding the Seller and the Seller Subsidiaries furnished or made available to the Buyer and its representatives and neither the Seller, or any other Person (including any officer or director of the Seller or any Seller Subsidiary) shall have or be subject to any liability to the Buyer, or any other Person, resulting from the sale of the Purchased Assets or the Business, or the Buyer's use of any such information and any information, documents or material made available to the Buyer in any "data rooms," due diligence or in any other form in expectation of the transactions contemplated hereby.

ARTICLE V EMPLOYEE MATTERS

5.1 EMPLOYEES. Effective as of the Closing, the Buyer shall offer to employ all employees of the Seller and each Seller Subsidiary who, on the Closing Date, are employed by the Seller or any Seller Subsidiary, including those who are absent from employment as of the Closing Date due to illness, injury, military service or mobilization, or other authorized absence (each an "EMPLOYEE"). Such offer shall include wages and other compensation and benefits of the types provided to such employee immediately prior to the Closing Date that are no less favorable in the aggregate to each Employee than the wages, other compensation and benefits provided to each such Employee as in

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effect immediately prior to the Closing Date. Employees who do not specifically reject such offers of employment from the Buyer shall be deemed to have accepted such offers and shall commence employment with the Buyer immediately upon the Closing and shall be deemed, for all purposes consistent with Applicable Law and, except as otherwise expressly provided herein, such commencement of employment with the Buyer shall be deemed to have occurred with no interruption or break in service and no termination of employment. Employees whose employment so commences with the Buyer upon the Closing are referred to herein as **"TRANSFERRED EMPLOYEES."**

5.2 BENEFIT PLANS. (a) Unless otherwise prohibited by the PBGC, the sponsorship of each Benefit Plan, and including any trust or other funding mechanism in respect of each such Benefit Plan, shall be transferred to the Buyer or, at the election of the Buyer, to a Subsidiary or Affiliate of the Buyer on and effective as of the Closing Date. In connection with such transfer and as of the Closing Date, the Buyer and its Subsidiaries and Affiliates shall assume and indemnify and hold the Seller Indemnified Parties harmless from and against, all liabilities and obligations of the Seller Indemnified Parties under each Benefit Plan, and the Seller Indemnified Parties shall not have any further liability or obligation to Employees, Former Employees or their respective dependents or to the Buyer or any Subsidiary or Affiliate of the Buyer in respect of (i) each such Benefit Plan, (ii) benefits under any Benefit Plan accrued or payable prior to, on or after the Closing, and (iii) any other liability or obligation with respect to claims or damages to which any of the Seller Indemnified Parties may become obligated in respect of any Employee or Former Employee (and the Buyer shall indemnify and hold the Seller Indemnified Parties harmless from all such benefits, liabilities and obligations).

(b) Service by Transferred Employees with the Seller or any Seller Subsidiary shall be recognized under the Benefit Plans transferred to the Buyer, and all similar plans of the Buyer in which Transferred Employees may participate following the Closing, and any benefit plans, programs, policies or arrangements sponsored, maintained or contributed to the Buyer or any of its Subsidiaries or Affiliates in which any Transferred Employees are eligible to participate on or after the Closing Date (the **"BUYER BENEFIT PLANS"**) for all purposes, including but not limited to participation, coverage, vesting and level of benefits, as applicable. The Buyer shall waive or cause its insurance carriers to waive all limitations as to pre-existing conditions, if any, with respect to participation and coverage requirements applicable to Transferred Employees or their covered dependents under the Benefit Plans and the Buyer Benefit Plans, as applicable.

(c) The Buyer shall cause each Transferred Employee to be provided with credit for any co-payments and deductibles paid prior to the Closing Date and during the calendar year in which the Closing Date occurs under any Benefit Plan transferred to the Buyer, and in all similar plans of the Buyer in which Transferred Employees may participate following the Closing, in satisfying any applicable deductible or out-of-pocket requirements for such calendar year.

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(d) The Buyer shall recognize all vacation, sick leave and paid time off accrued by each Transferred Employee but unused as of the Closing Date.

(e) From and after the Closing Date, the Buyer assumes responsibility for compliance with, as well as any liability which may exist or arise out of, the Workers Adjustment and Retraining Notification Act, P.L. 100-379 and any similar state or local law ("WARN") with respect to any Employee or Former Employee whether terminated prior to, on or after the Closing.

(f) As of and following the Closing Date, the Buyer shall be responsible for administering compliance with the continuation coverage requirements for "group health plans" under Title X of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and as codified in Code Section 4980B and ERISA Sections 601 through 608 ("COBRA"), the certificate of credible coverage requirements of the health insurance portability and accountability requirements for "group health plans" under the Health Insurance Portability and Accountability Act of 1996, as amended, and the regulations promulgated thereunder ("HIPAA"), including privacy regulations and the corresponding provisions of any applicable Benefit Plans that are health plans, all with respect to Former Employees and their covered dependents, in each case who incur a COBRA qualifying event or loss of coverage under any Benefit Plan at any time on or before the Closing. In addition to the foregoing, as of the Closing, the Buyer shall be solely responsible for compliance with COBRA and HIPAA with respect to all Employees, and their respective spouses and dependents for whom a qualifying event occurs on or after the Closing. The Buyer shall indemnify and hold the Seller Indemnified Parties harmless for any loss as a result of any liability incurred by the Seller and its Affiliates in respect of any of the obligations of the Buyer described in this Section 5.2 (f) related to the administration of and disbursement of COBRA benefits and HIPAA certificates.

(g) Nothing herein shall preclude the Buyer from amending or terminating any specific plan, program or arrangements to the extent permitted by Applicable Law.

(h) Without limiting the foregoing, the Buyer shall (i) honor, pay, perform and satisfy any and all liabilities, obligations and responsibilities to, or in respect of, each Employee arising under the terms of any employment, consulting, retention, severance, change-of-control or similar agreement, in accordance with the terms thereof in effect on the Closing Date; (ii) assume, honor and be solely responsible for paying, providing or satisfying when due all compensation (including salary, wages, commissions, bonuses, incentive compensation, overtime, premium pay and shift differentials), benefits and benefit claims, severance and termination pay, notice and benefits under all Applicable Law and under any plan, policy practice or agreement and all other liabilities, including any severance, change of control or retention liabilities or obligations, in each case accruing, incurring, or arising as a result of employment or separation from employment with the Seller or any Seller Subsidiary at any time. The Buyer shall indemnify and hold the Seller Indemnified Parties harmless from any losses arising out of or related to the obligations of the Buyer under this Section 5.2(h).

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5.3 PAYROLL TAXES. For purposes of payroll taxes with respect to Transferred Employees, the Buyer and the Seller shall treat the transaction contemplated by this Agreement as a transaction described in Treas. Reg. Sections 31.3121(a)(1)-1(b)(2) and 31.3306(b)(1)-1(b)(2).

ARTICLE VI TAX MATTERS

6.1 ALLOCATION OF PURCHASE PRICE.

(a) The Cash Purchase Price (plus Assumed Liabilities to the extent properly taken into account under Section 1060 of the Code and the regulations thereunder) shall be allocated among the Purchased Assets in a manner to be determined by the Seller. The Seller and the Buyer agree to use the allocations determined pursuant to this Section 6.1(a) for all tax purposes, including, without limitation, those matters subject to Section 1060 of the Code and the regulations thereunder.

(b) Not later than 30 days prior to the filing of their respective Forms 8594 relating to this transaction, each Party shall deliver to the other Party a copy of its Form 8594.

6.2 TRANSFER TAXES. In addition to all other amounts payable by the Buyer under this Agreement, all sales, use, transfer, excise, value-added, excise, registration, documentary, stamp, or other similar Taxes (including all applicable real estate transfer or gains Taxes), and all recording and filing fees that may be imposed by reason of the transactions contemplated in this Agreement shall be borne and paid by the Buyer, and the Buyer will, at its own expense, file all necessary tax returns and other documentation with respect to all such Taxes and fees.

ARTICLE VII COVENANTS AND AGREEMENTS

7.1 CONDUCT OF THE BUSINESS.

(a) Except to the extent specifically required by this Agreement or with the prior written consent of the Buyer, from the date hereof until the Closing Date, the Seller shall conduct the Business in the ordinary course consistent with past practice and shall use its reasonable efforts to, and cause the Seller Subsidiaries to, preserve intact the business organizational and relationships with third parties.

(b) From the date hereof until the Closing Date, without the prior written consent of the Buyer, the Seller shall not make any Seller Restricted Payments.

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(c) Notwithstanding clause (a) of this Section 7.1 and without limiting the obligations of the Buyer set forth in Article V (Employee Matters), at any time the Seller may discuss any Benefit Plan that is a single employer plan subject to Title IV of ERISA (a "TITLE IV PLAN") with the Pension Benefit Guaranty Corporation (the "PBGC") and take whatever action may be required by the PBGC, including, without limitation, terminating and funding in full with the Company's cash in the Accounts the Title IV Plan in order for the PBGC to not object to the consummation of the transactions contemplated by the Transaction Documents and/or the transfer of any Title IV Plan to the Buyer or any Subsidiary or Affiliate of the Buyer described in Section 5.2 (a).

7.2 NO SOLICITATION.

(a) From the date of this Agreement until the Closing Date or the termination of this Agreement in accordance with Article X, except as specifically permitted in Section 7.2(c), 7.2(e) or 7.2(g), the Seller shall not, nor shall it authorize or permit any Seller Subsidiary or any of their respective officers, directors, representatives, advisors or agents to, directly or indirectly: (i) solicit, initiate, knowingly facilitate or knowingly encourage any inquiries, offers or proposals that constitute, or are reasonably likely to lead to, any Acquisition Proposal; (ii) engage in discussions or negotiations with, furnish or disclose any information relating to the Seller or any Seller Subsidiary to, or in response to a request therefor, give access to the Purchased Assets or the books and records of the Seller or any Seller Subsidiary to, any Person that has made or, to the knowledge of the Seller, may be considering making any Acquisition Proposal or otherwise in connection with an Acquisition Proposal; (iii) approve any Acquisition Proposal; (iv) enter into any agreement in principle, arrangement, understanding or contract relating to any Acquisition Proposal; or (v) take any other action inconsistent with the obligations of the Seller under this Section 7.2.

(b) For purposes of this Agreement, "ACQUISITION PROPOSAL" means any contract, proposal, offer or other indication of interest (whether or not in writing and whether or not delivered to the Seller) relating to (i) a merger, consolidation, or other business combination involving the Seller or any Seller Subsidiary engaged actively in the Business, (ii) a sale, lease, exchange, mortgage, transfer or other disposition, in a single transaction or series of related transactions, of all or substantially all of the Purchased Assets (including the capital stock of (or other ownership interest in) any Seller Subsidiary), or (iii) a purchase or sale of equity securities of the Seller, in a single transaction or series of related transactions, representing 50% or more of the voting power of the capital stock of the Seller, including by way of a tender offer or exchange offer in connection with any acquisition by the Seller or any Seller Subsidiary in each case other than the transactions contemplated by this Agreement.

(c) Except with respect to Persons (other than a Losing Bidder) with respect to which Seller and Seller Board have heretofore taken the actions required by Section 7.2(e)(i), the Seller shall, and shall cause each Seller Subsidiary and instruct its advisors, agents and representatives to, immediately cease any existing solicitations, discussions, negotiations or other activity with any Person being conducted as of the date

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hereof with respect to any Acquisition Proposal. The Seller shall promptly inform its advisors, agents and representatives of the Seller's obligations under this Section 7.2.

(d) The Seller shall promptly (and not more than 24 hours after receipt) notify the Buyer after receipt of (i) any Acquisition Proposal or indication that any Person (other than a Losing Bidder) is considering making an Acquisition Proposal, (ii) or any request for information relating to the Seller or any Seller Subsidiary that the Seller reasonably believes could lead to an Acquisition Proposal or (iii) any request for access to the Purchased Assets or the books and records of the Seller or any Seller Subsidiary that the Seller reasonably believes could lead to an Acquisition Proposal. The Seller shall provide the Buyer promptly with the identity of such Person (which in no event shall be a Losing Bidder), a detailed description of such Acquisition Proposal, indication or request and, if in writing, a copy of such Acquisition Proposal. The Seller shall keep the Buyer fully informed on a reasonably current basis of the status and details of any such Acquisition Proposal, indication or request.

(e) Subject to the Seller's compliance with the provisions of this Section 7.2, nothing in this Agreement shall prevent the Seller or the Seller Board (or any committee thereof) from:

(i) engaging in discussions or negotiations with, or furnishing or disclosing any information relating to the Seller or any Seller Subsidiary or, in response to a request therefor, giving access to the Purchased Assets or the books and records of the Seller or any Seller Subsidiary to, any Person (other than a Losing Bidder) who has made a bona fide written and unsolicited Acquisition Proposal if the Seller Board determines that such Acquisition Proposal may result in a Superior Proposal, but only so long as (x) the Seller Board has acted reasonably and by a majority of the independent members of the Seller Board and (y) the Seller (A) enters into a confidentiality agreement with such Person on customary terms and conditions and (B) concurrently discloses or makes available the same information to the Buyer as it makes available to such Person;

(ii) subject to compliance with Section 7.2(e)(i), entering into a definitive agreement providing for the implementation of a Superior Proposal, but only so long as (A) the Seller Board, acting in good faith and by a majority of the independent members of the board of directors, has approved such definitive agreement, (B) the Seller Board has determined, after consultation with its financial advisor, that such Acquisition Proposal constitutes a Superior Proposal and (C) the Seller terminates this Agreement pursuant to, and after complying with all of the provisions of, Section 10.1(e); or

(iii) taking and disclosing to the Seller's stockholders a position contemplated by Rule 14d-9 or 14e-2 promulgated under the Securities Exchange Act of 1934, as amended, or making any disclosure to the Seller's stockholders if, in the good faith judgment of the Seller Board, the failure so to disclose would be inconsistent with its obligations under any Applicable Law.

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(f) For purposes of this Agreement, "SUPERIOR PROPOSAL" means an Acquisition Proposal for all or substantially all of the Purchased Assets, taken as a whole, which (i) is on terms and conditions more favorable from a financial point of view to the unaffiliated stockholders of the Seller than those contemplated by this Agreement and (ii) the conditions to the consummation of which are all reasonably capable of being satisfied in a timely manner.

(g) The Seller Board shall not (i) approve any Acquisition Proposal (other than the Buyer's) or Superior Proposal or (ii) enter into a contract relating to an Acquisition Proposal (other than the Buyer's) or Superior Proposal, unless the Seller terminates this Agreement pursuant to, and after complying with all of the provisions of, Section 10.1(e). For the avoidance of doubt, in no event shall (x) the Seller or the Seller Board (or any committee thereof) have the right under this Section 7.2 to discuss, negotiate, entertain, accept or approve any Acquisition Proposal made by a Losing Bidder or to enter into an agreement with a Losing Bidder in respect of an Acquisition Proposal.

7.3 DIRECTORS' AND OFFICERS' INDEMNIFICATION AND INSURANCE.

(a) The Buyer agrees to indemnify the present and former directors, officers, employees and agents of the Seller and each Seller Subsidiary (each, an "INDEMNIFIED PERSON") to the fullest extent permitted by Applicable Law and hold them harmless from any Losses suffered or incurred by such Indemnified Persons with respect to all acts and omissions arising out of such Indemnified Persons' services as officers, directors, employees or agents of the Seller or any of the Seller Subsidiaries or as trustees or fiduciaries of any Benefit Plan, or otherwise on behalf of, the Seller or any Seller Subsidiary, occurring on or prior to the Closing Date, including the transactions contemplated by this Agreement and the Shareholder Litigation, to the same extent and in the same manner that any Indemnified Person has or would have had the benefit of any right to indemnification pursuant to the Dissolution Plan, the certificate of incorporation or by-laws or similar organizational documents of the Seller and each Seller Subsidiary as in effect on or prior to the Closing Date. The Buyer hereby covenants and agrees (i) not to amend, alter or waive in any adverse respect such right to indemnification as set forth in the certificate of incorporation or by-laws or similar organizational documents of each Seller Subsidiary for a period of not less than six years following the Closing Date and (ii) to notify the Trustees promptly of any claim, action, suit or proceeding against any Indemnified Person of which the Buyer has knowledge for which coverage may be available under any applicable policy of insurance.

(b) This Section 7.3 is intended for the benefit of, and to grant, third-party rights to, Persons entitled to indemnification hereunder, and each of such Persons shall be entitled to enforce the covenants contained in this Section 7.3.

7.4 PUBLICITY; CONFIDENTIALITY (a)

(a) Prior to Closing, except as may be required by Applicable Law or the rules and regulations of the American Stock Exchange, no publicity release or

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announcement concerning this Agreement or the transactions contemplated hereby shall be issued without advance approval of the form and substance thereof by the Buyer and the Seller.

(b) The Buyer shall, and shall cause its directors, officers, employees, agents and advisers to, maintain the confidentiality of all confidential information furnished to it by the Seller concerning the Business and shall not use such information for any purpose except in furtherance of the transactions contemplated by this Agreement.

7.5 FEES AND EXPENSES. Each party shall be liable for the fees and expenses incurred by such party in connection with the transactions contemplated by this Agreement. On or immediately prior to the Closing, Seller shall pay the Seller Expenses using the cash in the Accounts.

7.6 EFFORTS.

(a) The Buyer acknowledges that certain consents to the transactions contemplated by this Agreement may be required from parties to the Contracts and such consents have not been obtained. The Buyer agrees the Seller shall not have any liability whatsoever to the Buyer arising out of or relating to the failure to obtain any consents that may have been or may be required in connection with the transactions contemplated by this Agreement or because of the default, acceleration or termination of any Contract as a result thereof. The Buyer further agrees that no representation, warranty or covenant of the Seller contained herein shall be breached or deemed breached and no condition of the Buyer shall be deemed not to be satisfied as a result of (i) the failure to obtain any consent or as a result of any such default, acceleration or termination or (ii) any litigation commenced or threatened by or on behalf of any Persons arising out of or relating to the failure to obtain any consent or any such default, acceleration or termination.

(b) With respect to any Contracts that may not be properly assigned to the Buyer because of the failure to obtain a required consent ("NONTRANSFERABLE CONTRACTS"), the Buyer shall indemnify, defend and hold harmless the Seller Indemnified Parties from and against any Losses that the Seller may have in connection with such Nontransferable Contracts as a result of the transactions contemplated by this Agreement.

(c) With respect to any Nontransferable Contract with respect to which the Seller and the Buyer are unable to obtain a separate agreement between the Buyer and the other party or parties, the Buyer shall have the right to require that the Seller use reasonable efforts to perform any such Nontransferable Contract, to the extent it relates to the Business, as agent for and for the account of the Buyer, for a period up to one month following the Closing Date; PROVIDED, that the Buyer shall reimburse, indemnify and hold the Seller harmless for any and all costs, expenses, losses and liabilities incurred by the Seller in connection with taking such action.

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7.7 DISSOLUTION. On the earlier of (a) the Liquidation Date or (b) the day immediately prior to the Closing Date, the Seller shall file a certificate of dissolution of the Seller with the Secretary of State of the State of Delaware in accordance with Section 275 of the Delaware General Corporation Law, and if the applicable date referenced above is the Liquidation Date, the Seller shall, immediately following the filing of such certificate of dissolution (i) transfer and assign to the Trustees all of the Purchased Assets, the Excluded Assets and all of the Seller's rights and interests in and to this Agreement, (ii) transfer and assign to the Trustees all of the Assumed Liabilities and all of the Seller's covenants, agreements and other obligations under this Agreement and (iii) cause the Trustees to execute and deliver to the Buyer an instrument, in form and substance satisfactory to the Buyer (the "**TRUST ASSUMPTION AGREEMENT**"), containing the following representations, warranties and agreements of the Trustees and the Trust: (A) that the Trustees have fully and lawfully succeeded to all right, title and interest of the Seller in and to the Purchased Assets, the Excluded Assets and the Assumed Liabilities, (B) all representations, warranties, covenants, agreements and other obligations of any kind or nature of, and applicable references to, the Seller contained in, or otherwise under, this Agreement and the other Transaction Documents (including, without limitation, the agreements, representations and warranties of, and applicable references to, the Seller set forth in Sections 2.1, 2.2, 2.5, 3.2 through 3.6, 7.13 and 8.2) are (x) the representations, warranties, covenants, agreements and obligations of, and shall include references to, the Trustees and the Trust to the full extent as if the Trustees and the Trust were the Seller and a party hereto, and (y) repeated and made by the Trustees and the Trust as of the Liquidation Date, (C) that the consummation by the Buyer and the Trustees and the Trust of the transactions contemplated hereby will not conflict with the trust agreement of the Trust or the Dissolution Plan, has been approved by the Trustees and will have the same legal force and effect as if such transactions were consummated by the Seller and the Buyer, and (D) that the Trust is a Trust duly formed, validly existing and in good standing under the laws of the State of Delaware; each of the Trustees and the Trust has all requisite power, legal right and authority to execute and deliver each Transaction Document to which it is a party, and to perform fully its obligations under the Transaction Documents to which it is a party; and the Trustees and the Trust have all requisite trust power and lawful authority to own, lease and operate the Business and its assets.

7.8 BULK SALES LAWS. The Buyer hereby waives compliance by the Seller with the provisions of "bulk sales" or similar laws of any state with respect to the transactions contemplated hereby.

7.9 BUYER RESTRICTED PAYMENTS AND LOAN PAYMENTS. Without the Seller's prior written consent, prior to the three year anniversary of the Closing Date; the Buyer shall not make any (i) Buyer Restricted Payments or (ii) payments of principal on the Loan; provided however that the Buyer shall not be precluded from making any such payment during such three year period, if after making any such payment, the Buyer has a net worth equal to at least \$10 million.

7.10 MARKETABLE SECURITIES. At least three Business Days prior to the

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Closing, Seller shall sell and liquidate for cash all marketable securities owned by it and the Seller Subsidiaries and shall deposit the net proceeds therefrom into the Accounts.

7.11 CHANGE OF NAME. As soon as practicable after the Closing Date but in any event prior to December 31, 2005, the Seller shall take all action necessary to change its corporate name to a name that is not (and that is not confusingly similar to) "FAB Industries, Inc.," and does not include the "FAB" name in any form, it being the intent of the parties hereto that from and after the Closing Date, the Buyer or any of its Affiliates will have the sole and exclusive right as against the Seller and any of its Affiliates to conduct business under the "FAB" name and that the Buyer or any of its Affiliates may commence doing so at the time of the Closing.

7.12 WIND-DOWN CASH. Promptly following the final liquidation of the Seller, the Seller shall refund to the Buyer any excess Wind-Down Cash not used by Seller to pay its liquidation expenses following the Closing.

7.13. ADDITIONAL ASSURANCES. Following the Closing, the Seller shall take all such actions as may be reasonably requested by the Buyer to further effectuate the provisions of this Agreement and the other Transaction Documents to fully vest in the Buyer all right, title and interest of the Seller in and to the Purchased Assets.

ARTICLE VIII

CONDITIONS TO CLOSING

8.1 CONDITIONS TO THE OBLIGATION OF THE SELLER TO CLOSE. The obligation of the Seller to complete the sale provided for in this Agreement or otherwise consummate the Closing shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, any and all of which may be waived in whole or in part by the Seller pursuant to Section 11.6.

(a) REPRESENTATIONS AND WARRANTIES. (a) The representations and warranties of the Buyer contained in Article IV shall be true and correct in all material respects (except for any such representations and warranties which are qualified by their terms by a reference to materiality or material adverse effect, which representations and warranties as so qualified shall be true and correct in all respects) at and on the Closing Date, as if made at and on such date.

(b) COVENANTS. The Buyer shall have performed and complied in all material respects with all covenants and agreements required by this Agreement to be performed or complied with by the Buyer on or prior to the Closing Date.

(c) CLOSING DELIVERIES. The Buyer shall have made all the deliveries to the Seller set forth in Section 9.3

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(d) SHAREHOLDER LITIGATION. The terms of the settlement for the Shareholder Litigation as set forth in the Memorandum of Understanding shall have been finally approved by the Court of Chancery of the State of Delaware (the "COURT").

(e) SUFFICIENT FUNDS. The Buyer shall have provided evidence to the Seller that the Loan has been made to the Buyer, so that following the Closing, the Buyer will have sufficient cash, available lines of credit or other sources of immediately available funds to enable it to satisfy the Assumed Liabilities in full and in accordance with their terms.

8.2 CONDITIONS TO OBLIGATION OF THE BUYER TO CLOSE. The obligation of the Buyer to complete the purchase provided for in this Agreement or otherwise consummate the Closing shall be subject to the satisfaction on or prior to the Closing Date of each of the following conditions, any and all of which may be waived in whole or in part by the Buyer pursuant to Section 11.6.

(a) REPRESENTATION AND WARRANTIES. The representations and warranties of the Seller contained in Article III shall be true and correct in all material respects (except for any such representations and warranties which are qualified by their terms by a reference to materiality or material adverse effect, which representations and warranties as so qualified shall be true and correct in all respects) at and on the Closing Date, as if made at and on such date.

(b) COVENANT AND AGREEMENTS. The Seller shall have performed and complied in all material respects with all of its covenants and agreements set forth herein that are required to be performed by the Seller on or before the Closing Date.

(c) CLOSING DELIVERIES. The Seller shall have made all the deliveries to the Buyer set forth in Section 9.2.

(d) SHAREHOLDER LITIGATION.(e) The terms of the settlement for the Shareholder Litigation as set forth in the Memorandum of Understanding shall have been finally approved by the Court.

ARTICLE IX

CLOSING AND CLOSING DELIVERIES

9.1 CLOSING. The closing of the sale and purchase of the Purchased Assets and other transactions contemplated hereby (the "CLOSING") shall be held at the offices of Paul, Weiss, Rifkind, Wharton & Garrison LLP, 1285 Avenue of the Americas,

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in New York, New York on the second Business Day following the date on which all of the conditions set forth in Articles VIII (other than those conditions that can only be satisfied at the Closing) shall be satisfied or waived in accordance with this Agreement, or at such other time, place and date as the Buyer and Seller may mutually agree in writing. The date upon which the Closing occurs is referred to as the "CLOSING DATE."

9.2 DELIVERIES BY THE SELLER(a) . On the Closing Date, the Seller shall deliver to the Buyer the following, in form and substance reasonably satisfactory to the Buyer and its counsel:

(a) a certificate of the Seller, executed by an authorized representative of the Seller, dated as of the Closing Date, certifying that the conditions to Closing set forth in Section 8.2(a) and Section 8.2(b) have been satisfied;

(b) physical possession and control of the Purchased Assets;

(c) a wire transfer of all cash amounts in the Accounts at Closing in excess of the Retained Cash in accordance with the wire transfer instructions designated by the Buyer two Business Days prior to the Closing Date;

(d) a certificate of the Seller, executed by an authorized representative of the Seller, certifying (i) the Seller Board (after receiving the unanimous favorable recommendation of the Special Committee) has unanimously approved the execution, delivery and performance of the Transaction Documents and the consummation of the transactions contemplated thereby (with copies of the resolutions duly adopted by the Seller Board attached), and (ii) the incumbency of the officer or officers of the Seller signing the Transaction Documents;

(e) a copy of the Fairness Opinion;

(f) fully executed stock powers in a form reasonably satisfactory to the Buyer and Seller with respect to the Seller Subsidiary Stock;

(g) a duly executed Bill of Sale;

(h) a duly executed Assignment and Assumption Agreement;

(i) a duly executed Trademark Assignment Agreement;

(j) duly executed documents necessary to transfer the Accounts to the Buyer; and

(k) such other documents and instruments as shall be reasonably necessary to effect the intent of this Agreement and consummate the transactions contemplated hereby.

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9.3 DELIVERIES BY THE BUYER. On the Closing Date, the Buyer shall deliver to the Seller the following, in form and substance reasonably satisfactory to the Seller and its counsel:

- (a) a certificate of the Buyer, executed by an authorized representative of the Buyer, dated as of the Closing Date, certifying that the conditions to Closing set forth in Section 8.1(a) and Section 8.1(b) have been satisfied;
- (b) a duly executed Assignment and Assumption Agreement;
- (c) a wire transfer of any cash amounts payable by the Buyer pursuant to the proviso in Section 2.4; and
- (d) such other documents and instruments as shall be reasonably necessary to effect the intent of this Agreement and consummate the transactions contemplated hereby.

**ARTICLE X
TERMINATION OF AGREEMENT**

10.1 TERMINATION. This Agreement may be terminated prior to the Closing as follows:

- (a) at any time on or prior to the Closing Date, by mutual written consent of the Seller and the Buyer;
- (b) at the election of the Seller or the Buyer by written notice to the other Party after 5:00 p.m., New York time, on December 31, 2005, if the Closing shall not have occurred, unless such date is extended by the mutual written consent of the Seller and the Buyer; PROVIDED, HOWEVER, that the right to terminate this Agreement under this Section 10.1(b) shall not be available to any Party whose breach of any representation, warranty, covenant or agreement under this Agreement has been the cause of, or resulted in, the failure of the Closing to occur on or before such date;
- (c) at the election of the Seller, if there has been a material breach of any representation, warranty, covenant or agreement on the part of the Buyer contained in this Agreement, which breach has not been cured within thirty (30) days of notice to the Buyer of such breach; or
- (d) at the election of the Buyer, if there has been a material breach of any representation, warranty, covenant or agreement on the part of the Seller contained in this Agreement, which breach has not been cured within thirty (30) days notice to the Seller of such breach.
- (e) at the election of the Seller, if a majority of the independent members of the Seller Board approves, and authorizes the Seller to enter into, and the

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Seller concurrently with such termination enters into, a definitive agreement, arrangement or contract providing for the implementation of a Superior Proposal, but only so long as:

(i) the Seller not then and has not been in breach of any of its obligations under Section 7.2;

(ii) the Seller Board shall have authorized the Seller, subject to complying with the terms and conditions of this Agreement, to enter into a binding written agreement concerning such Superior Proposal and the Seller notifies Buyer in writing that it intends to enter into such an agreement, attaching the most current version of such agreement (including any amendments, supplements or modifications) to such notice;

(iii) during the three Business Day period following the Buyer's receipt of such notice, (A) the Seller shall have offered to negotiate in good faith with (and, if accepted, negotiate in good faith with), and shall have instructed its respective financial and legal advisors to have offered to negotiate in good faith with (and, if accepted, negotiate in good faith with), the Buyer to make adjustments in the terms and conditions of this Agreement, and (B) the Seller Board shall have concluded, after considering the results of such negotiations and the revised proposals made by the Buyer, if any, that any Superior Proposal giving rise to such notice continues to be a Superior Proposal; and

(iv) such termination occurs within seven Business Days following the three Business Day period referred to in Section 10.1(e)(iii).

10.2 NOTICE OF TERMINATION. Any Party desiring to terminate this Agreement pursuant to this Article X shall give notice of such termination to the other Party.

10.3 EFFECT OF TERMINATION. If this Agreement is terminated pursuant to this Article X, it shall become void and of no further force and effect, with no liability on the part of any Party to this Agreement (other than Sections 7 and 10.3), PROVIDED, HOWEVER, that nothing herein shall relieve any Party from liability for its willful breach of this Agreement prior to the termination of this Agreement.

10.4 EXPENSES FOLLOWING TERMINATION(a) .

(a) Except as set forth in this Section 10.4, all expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be paid in accordance with the provisions of Section 7.5.

(b) If this Agreement is terminated by the Seller pursuant to Section 10.1(e), promptly (and in any event no later than three Business Days) following such termination, the Seller shall pay, or cause to be paid, to the Buyer by wire transfer of immediately available funds the sum of (x) an amount equal to 3% of the Assumed Liabilities (as determined in good faith on the date of the termination of this Agreement

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by the Board or any committee thereof) (the "TERMINATION FEE") PLUS (x) an amount equal to the Buyer Expenses. For purposes of this Agreement, "BUYER EXPENSES" means all documented out-of-pocket costs and expenses not to exceed \$150,000 in the aggregate incurred or paid by or on behalf of the Buyer in connection with or related to authorization, preparation, negotiation, investigation, execution and performance of this Agreement.

(c) If this Agreement is terminated by (i) the Seller pursuant to Section 10.1(e) or (ii) the Buyer pursuant to Section 10.1(d), promptly (and in any event no later than three Business Days) following such termination, the Seller shall pay, or cause to be paid, to the Buyer by wire transfer of immediately available funds an amount equal to the Good Faith Deposit. If this Agreement is terminated by either the Seller or the Buyer for any reason, other than pursuant to Section 10.1(e) or Section 10(d), the Seller shall retain the Good Faith Deposit.

(d) The Seller acknowledges that (i) the agreements contained in this Section 10.4 are an integral part of the transactions contemplated by this Agreement and (ii) without these agreements, the Buyer would not have entered into this Agreement.

(e) Any payment of the (i) Termination Fee, (ii) the Good Faith Deposit and (iii) Buyer Expenses pursuant to this Section 10.4 shall serve as full liquidated damages in respect of any breach of this Agreement by the Seller and the Buyer hereby waives all claims against the Seller in respect of the breach or breaches occasioning the payment pursuant to this Section 10.4.

ARTICLE XI MISCELLANEOUS

11.1 NONSURVIVAL OF REPRESENTATIONS, WARRANTIES, COVENANTS AND AGREEMENTS.

(a) None of the representations, warranties, covenants and agreements in this Agreement or in any instrument delivered pursuant to this Agreement shall survive the Closing, except that (i) the representations and warranties in Section 4.8 and Section 4.9 shall survive indefinitely and (ii) those covenants which by their terms apply in whole or in part after the Closing (including the covenants of the Buyer set forth in Article V, Article VI and Section 11.2) shall survive the Closing.

(b) Without limiting the foregoing, the Buyer agrees that after the Closing Date, it shall not have any right to make any claim against the Seller, the Trust, the Trustees or any other Person, whether based on the provisions of this Agreement, the other Transaction Documents or otherwise, arising out of the transactions contemplated by this Agreement, the Other Transaction Documents or the Shareholder Litigation. In

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furtherance of the foregoing, the Buyer hereby waives, from and after the Closing, to the fullest extent permitted under Applicable Law, any and all rights, claims and causes of action it may have against the Seller, the Trust and the Trustees relating to the Shareholder Litigation, the subject matter of this Agreement, the Trust Assumption Agreement and the other Transaction Documents arising under or based upon any Applicable Law. The Buyer further acknowledges and agrees that it shall have no claim with respect to any information, documents or materials furnished by the Seller or its representatives or any other Person or any of their officers, directors, employees, agents or advisors, including any information, (or any reliance thereon) documents or material made available to the Buyer in certain "data rooms," management presentations or any other form in expectation of the transactions contemplated by this Agreement or the other Transaction Documents.

(c) It is understood and agreed that notwithstanding anything to the contrary contained in this Agreement, in any other Transaction Document or in the Trust Assumption Agreement, it is the express intent of the parties hereto that from and after the Closing (i) all Assumed Liabilities shall be the sole and exclusive obligation and liability of the Buyer and not of the Seller, the Trust or any Trustee, (ii) none of the Seller, the Trust or any Trustee shall have any obligation or liability with respect to any Assumed Liability and (iii) the Buyer shall have no recourse of any kind (whether at law, in equity or otherwise) against the Seller, the Trust or any Trustee for any matter relating to this Agreement, any other Transaction Document, the Trust Assumption Agreement, the Purchased Assets, the Business or the Shareholder Litigation. Every provision of this Agreement, each other Transaction Document and the Trust Assumption Agreement shall be construed so as to carry out the foregoing intent of the parties hereto.

11.2 INDEMNIFICATION.

The Buyer shall indemnify the Seller and its officers, directors, employees and agents (each, a "SELLER INDEMNIFIED PARTY" and collectively, the "SELLER INDEMNIFIED PARTIES") against and hold them harmless from any Losses suffered or incurred by any such Seller Indemnified Party based upon or arising out of (i) any breach of any covenant or agreement of the Buyer contained in this Agreement or any other Transaction Documents, (ii) any failure of the Buyer to pay, discharge or perform any of the Assumed Liabilities in full and in accordance with their terms, (iii) any failure to comply with any "bulk sales laws" applicable to the transactions contemplated hereby and (iv) the operation of the Business or the use of the Purchased Assets whether prior to or after the Closing Date.

11.3 PROCEDURES RELATING TO INDEMNIFICATION.

(a) In order for a Person (the "INDEMNITEE") to be entitled to any indemnification provided for under this Agreement in respect of, arising out of or involving a claim or demand made by any Person against the Indemnitee (a "THIRD PARTY CLAIM"), such Indemnitee must notify the Buyer in writing (the "INDEMNIFICATION NOTICE"), and in reasonable detail, of the Third Party Claim as promptly as reasonably

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possible after receipt by such Indemnitee of notice of the Third Party Claim; PROVIDED, HOWEVER, that failure to give such notification on a timely basis shall not affect the indemnification provided hereunder except to the extent the Buyer shall have been actually prejudiced as a result of such failure. Thereafter, the Indemnitee shall deliver to the Buyer, within five business days after the Indemnitee's receipt thereof, copies of all notices and documents (including court papers) received by the Indemnitee relating to the Third Party Claim.

(b) If a Third Party Claim is made against an Indemnitee, the Buyer shall be entitled to participate in the defense thereof and, if it so chooses and acknowledges in writing its obligation to indemnify the Indemnitee therefor (at the time it elects to assume the defense of such Third Party Claim, which shall be not later than 30 days after the date of the Indemnification Notice), to assume the defense thereof with counsel selected by the Buyer and reasonably satisfactory to the Indemnitee. Should the Buyer so elect to assume the defense of a Third Party Claim, the Buyer shall (i) except as otherwise provided in this Section 11.3, not be liable to the Indemnitee for legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof and (ii) keep the Indemnitee fully and timely informed of all material developments with respect to such Third Party Claim and shall deliver to the Indemnitee, within ten days after the Buyer's receipt thereof, copies of all notices and documents (including court papers) received by the Buyer with respect to such Third Party Claim. If the Buyer assumes such defense, the Indemnitee shall have the right to participate in the defense thereof and to employ counsel, at its own expense, separate from the counsel employed by the Buyer, it being understood, however, that the Buyer shall control such defense. Notwithstanding the foregoing, the Indemnitee shall have the right to employ separate counsel (reasonably acceptable to the Buyer) at the Buyer's expense and to control its own defense of such Third Party Claim if in the reasonable opinion of counsel to the Indemnitee a conflict or potential conflict exists between the Buyer and the Indemnitee that would make such separate representation advisable. The Buyer shall be liable for the fees and expenses of counsel employed by the Indemnitee for any period during which the Buyer has not assumed the defense thereof. If the Buyer chooses to defend any Third Party Claim, all the parties hereto shall use commercially reasonable efforts to cooperate in the defense or prosecution of such Third Party Claim. Such cooperation shall include the retention and (upon the Buyer's request) the provision to the Buyer of records and information which are reasonably relevant to such Third Party Claim, and making employees available on a mutually convenient basis to provide additional information and explanation of any material provided hereunder. If the Buyer shall have assumed the defense of a Third Party Claim, the Indemnitee shall not admit any liability with respect to, or settle, compromise or discharge, such Third Party Claim without the Buyer's prior written consent (which consent shall not be unreasonably withheld). The Buyer shall not admit any liability with respect to or settle any Third Party Claim on behalf of Seller without the Seller's prior written consent (which consent shall not be unreasonably withheld).

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11.4 NOTICES. All notices, demands and other communications provided for or permitted hereunder shall be made in writing and shall be delivered by facsimile transmission, by an internationally recognized courier service or by personal delivery:

if to the Seller:

FAB Industries, Inc.
P.O. Box 483
Canal Street Station
New York, NY 10013

with a copy to:

Paul, Weiss, Rifkind, Wharton & Garrison LLP
1285 Avenue of the Americas
New York, NY 10019-6064
Facsimile: (212) 757-3990
Attention: James M. Dubin, Esq.

if to the Buyer:

SSJJJ Manufacturing Co., LLC
c/o Steven Myers
200 Madison Avenue
New York, N.Y. 10016

with a copy to:

Feldman Weinstein LLP
420 Lexington Avenue
New York, New York 10170
Attn: Saul H. Finkelstein, Esq.
Telecopy: (212) 997-4242

All such notices, demands and other communications shall be deemed to have been duly given when delivered by hand, if personally delivered; when delivered by courier, if delivered by courier service; and when receipt is mechanically acknowledged, if sent by facsimile transmission. Any Party may by notice given in accordance with this Section 10.1 designate another address or Person for receipt of notices hereunder.

11.5 SUCCESSORS AND ASSIGNS; THIRD PARTY BENEFICIARIES. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of the Parties. The Buyer may not assign any of its rights under this Agreement or the other Transaction Documents to any other Person ;provided that Buyer may assign its rights under this Agreement and the Transaction Documents to a corporation wholly-owned by Steven Myers and Samuel Hiatt (and not any significant shareholder of the

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Seller) ("Newco") upon receipt of a revenue ruling issued by the Internal Revenue Service that the capitalization of Newco and the closing of the transactions contemplated by this Agreement by Newco as the buyer will not result in the recharacterization of the tax treatment of any liquidating distributions made by the Seller under the Dissolution Plan. Except as provided in Article V (Employee Matters), Section 7.3 (Directors' and Officers' Indemnification and Insurance), Section 7.7 (Dissolution) and Section 11.2 (Indemnification), no Person other than the Parties and their successors and permitted assigns is intended to be a beneficiary of this Agreement, provided that the parties acknowledge and agree that that the Trust is a successor to the Seller.

11.6 AMENDMENT AND WAIVER.

(a) No failure or delay on the part of the Seller, or the Buyer in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to the Parties at law, in equity or otherwise.

(b) Any amendment, supplement or modification of or to any provision of this Agreement, any waiver of any provision of this Agreement, and any consent to any departure by any Party from the terms of any provision of this Agreement, shall be effective (i) only if it is made or given in writing and signed by all the Parties and (ii) only in the specific instance and for the specific purpose for which made or given.

11.7 COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the Parties in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

11.8 HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

11.9 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK WITHOUT REGARD TO ANY CONFLICT OF LAW PRINCIPLES THEREOF.

11.10 CONSENT TO JURISDICTION AND SERVICE OF PROCESS. Each Party hereby irrevocably agrees that any legal action or proceeding arising out of or relating to this Agreement or any agreements or transactions contemplated hereby shall only be instituted in the federal or state courts located in New York, New York and hereby expressly submits to the personal jurisdiction and venue of such courts for the purposes thereof and expressly waives any claim of improper venue and any claim that such courts are an inconvenient forum. Each Party hereby irrevocably consents to the service of process of any of the aforementioned courts in any such suit, action or proceeding by the

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mailing of copies thereof by registered or certified mail, postage prepaid, to the address set forth or referred to in Section 11.5.

11.11 WAIVER OF JURY TRIAL. EACH PARTY HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

11.12 SEVERABILITY. If any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired, unless the provisions held invalid, illegal or unenforceable shall substantially impair the benefits of the remaining provisions hereof.

11.13 ENTIRE AGREEMENT. This Agreement, together with the exhibits and schedules hereto and the other Transaction Documents are intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the Parties in respect of the subject matter contained herein and therein. There are no restrictions, promises, representations, warranties or undertakings, other than those set forth or referred to herein or therein. This Agreement, together with the exhibits and schedules hereto, and the other Transaction Documents supersede all prior agreements and understandings between the parties with respect to such subject matter.

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IN WITNESS WHEREOF, the undersigned have executed, or have caused to be executed, this Agreement on the date first written above.

SSJJJ MANUFACTURING CO., LLC

By: /s/ Steven Myers

Name: Steven Myers
Title: Managing Member

FAB INDUSTRIES, INC.

By: /s/ Samson Bitensky

Name: Samson Bitensky
Title: Chairman of the Board and CEO

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Dates Referenced Herein and Documents Incorporated by Reference

<u>This '8-K' Filing</u>	<u>Date</u>	<u>Referenced-On Page</u>		<u>Other Filings</u>
		<u>First</u>	<u>Last</u>	
	12/31/05	<u>28</u>	<u>31</u>	
	5/30/05	<u>4</u>		
Filed on:	5/27/05			<u>SC 13D/A</u>
For Period End:	5/26/05	<u>1</u>	<u>4</u>	
	5/18/05	<u>4</u>		
	5/30/02	<u>4</u>		<u>8-K</u>
	3/1/02	<u>4</u>		<u>10-K, 8-K</u>
	3/1/93	<u>15</u>		
				<u>List all Filings</u>

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